



AppleREITSix



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FINANCIAL

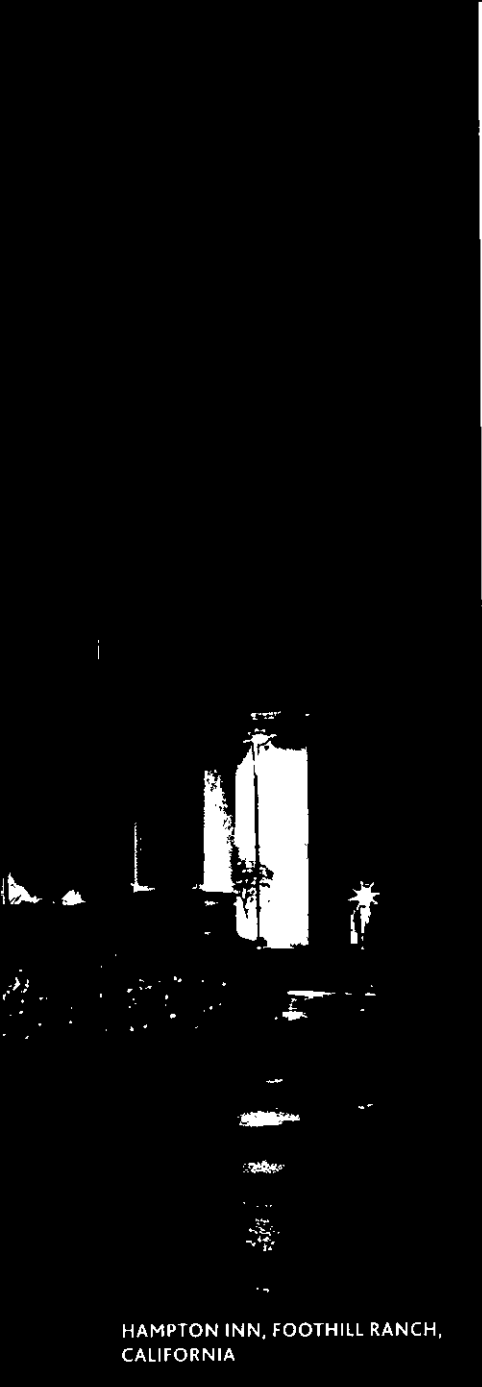
Marriott Residence Inn

2007 annual report



CORPORATE PROFILE Apple REIT Six, Inc. is a real estate investment trust (REIT) focused on the ownership of hotels. Our hotels operate under the Marriott®, Courtyard® by Marriott®, Fairfield Inn® by Marriott®, Residence Inn® by Marriott®, SpringHill Suites® by Marriott®, TownePlace Suites® by Marriott®, Homewood Suites by Hilton®, Hilton Garden Inn®, Hampton Inn® and Hampton Inn and Suites® brands. Our focus is to acquire high-quality real estate that generates attractive returns for our shareholders. As of the printing of this report, our portfolio consisted of 68 hotels, containing a total of 7,897 guestrooms in 18 states.

MISSION Apple REIT Six is a premier investment company committed to providing maximum value for our shareholders.



HAMPTON INN, FOOTHILL RANCH,
CALIFORNIA



HILTON GARDEN INN, MILPITAS, CALIFORNIA

FINANCIAL HIGHLIGHTS

(in thousands, except per share and statistical data)

| <i>Operating results for the year ended December 31,</i> | 2007 | 2006 |
|--|-----------|-----------|
| TOTAL REVENUE | \$257,934 | \$235,875 |
| NET INCOME | \$63,328 | \$54,113 |
| FUNDS FROM OPERATIONS (A) | \$90,110 | \$78,794 |
| DISTRIBUTIONS PAID PER SHARE | \$.88 | \$.88 |
| WEIGHTED-AVERAGE SHARES OUTSTANDING | 89,644 | 88,869 |
| REVENUE PER AVAILABLE ROOM (RevPAR) | \$84 | \$78 |

| <i>Balance sheet data as of December 31,</i> | 2007 | 2006 |
|--|-----------|-----------|
| INVESTMENT IN HOTELS, NET | \$820,468 | \$836,906 |
| TOTAL ASSETS | \$882,657 | \$886,839 |
| SHAREHOLDERS' EQUITY | \$816,244 | \$826,046 |

(A) Funds from operations (FFO) is defined as net income (computed in accordance with generally accepted accounting principles - GAAP) excluding gains and losses from sales of depreciable property, plus depreciation and amortization of real estate. The Company considers FFO in evaluating property acquisitions and its operating performance and believes that FFO should be considered along with, but not as an alternative to, net income and cash flows as a measure of the company's activities in accordance with GAAP. FFO is not necessarily indicative of cash available to fund cash needs.



BOULDER Marriott

dear shareholder

MARRIOTT, BOULDER, COLORADO

Last year was a year of continued progress for Apple REIT Six, Inc. During 2007, the Marriott[®] and Hilton[®]-branded hotels within our portfolio had well established themselves within their diverse markets across the United States. Our management teams worked diligently to deliver the best in hospitality and our Company implemented dynamic, productive and sustainable business strategies. We were loyal to our mission of providing the highest possible shareholder returns, protecting shareholder principal, and growing earnings in 2007, which is evident in our property operations and ongoing property improvement projects.

As a result of favorable market conditions, strong property operations and effective cost-management programs, our funds from operations (FFO) for 2007 reached \$90.1 million, or \$1.01 per share, more than 13 percent ahead of FFO for 2006. Our achievements in nearly every measure of operational performance last year allowed us the opportunity to increase your annual dividend rate from eight percent to 8.2 percent, based on an \$111 share price, or \$0.88 per year to \$0.902 per year. You should have begun to realize this increase in your February 2008 dividend payment.

In 2007, following the completion of numerous national hotel development projects, the hotel industry experienced a surge in the supply of new hotel rooms. Fortunately, as industry analysts predicted, the demand for accommodations kept pace with the increase in supply, stabilizing occupancy levels and providing the opportunity for an increase in average daily rates (ADR). I am delighted that our hotels, with a combined 7,750 guestrooms, reported average nightly occupancy rates of 74 percent, less than a one percent decrease from our 2006 average. Our asset management team worked diligently with our third party property management companies to comfortably increase nightly room rates while remaining competitive within our markets. The result was a year-over-year increase of nearly eight percent in ADR and a similar increase in revenue per available room (RevPAR). In 2007, our properties enjoyed ADR of \$113 and RevPAR of \$84. Results for 2006 were \$105 and \$78, respectively.

As you know, we have aligned our program with numerous high quality brands from two of the world's renowned leaders in the hotel industry, Marriott[®] and Hilton[®]. Our alliance with these brands allows us the benefit of the countless hours they spend researching the latest in consumer trends to ensure that our properties are effectively reaching their target markets through creative, resourceful initiatives and a variety of cost effective brand enhancements. Our extended-stay brands—Residence Inn[®] by Marriott[®], TownePlace Suites[®] by Marriott[®], and Homewood Suites by Hilton[®]—have implemented various programs in an effort to make guests feel at home while on the road, including hot breakfasts, evening meals and social hours. Our gatehouses feel more like living rooms, with flat-panel televisions, comfortable areas to socialize, high-speed wireless internet access and even outdoor patios with grills and beautiful landscaping. The limited service brands within our portfolio include the Courtyard[®] by Marriott[®], Fairfield Inn[®] by Marriott[®], Spring-Hill Suites[®] by Marriott[®], Hilton Garden Inn[®], Hampton Inn[®] and Hampton Inn and Suites[®]. These brands are moderately priced, targeting business travelers with an array of modern



HILTON GARDEN INN, FREDERICKSBURG, VIRGINIA

amenities, including flat panel televisions, complimentary high-speed internet service and comfortable, luxurious beds. This portfolio has two full-service Marriott® hotels. The full-service brand is the flagship of Marriott, providing upscale accommodations, fully equipped fitness centers, gift shops, swimming pools, elegant restaurants and lounges, concierge services, business centers, meeting facilities and grand ballrooms.

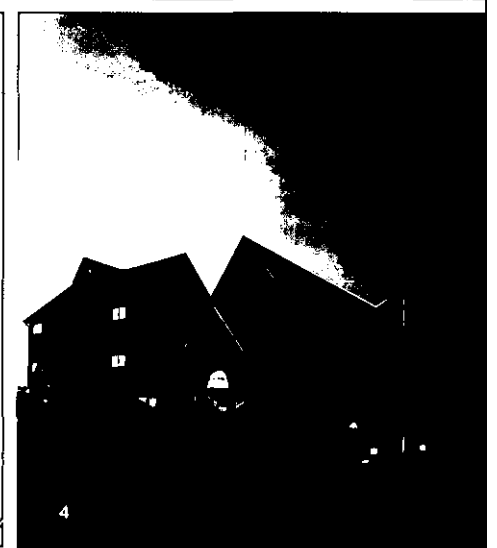
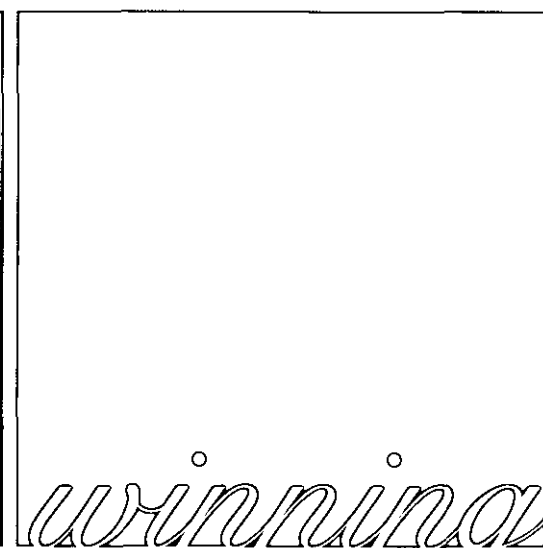
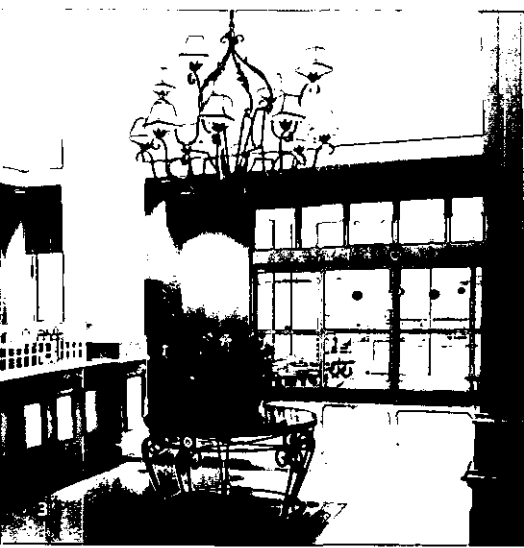
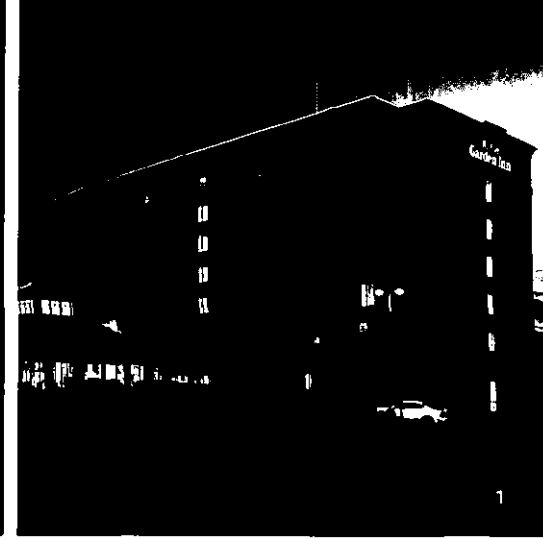
In an effort for our properties to maintain and grow their market share in today's consumer-driven, competitive travel industry, we have implemented numerous brand initiatives, enhancements and property improvement projects. Through the installation of items such as new carpeting, granite countertops, contemporary furnishings and modern electronics, we are working to grow the value of your investment through the careful safeguarding of our real estate. In 2007, we invested approximately \$8.1 million in a variety of hotel renovations. Currently, we have budgeted \$25 million for more intensive upgrades in 2008. The transformations that our Company has cost effectively executed at many of our properties have been remarkable.

On March 10, 2008, we completed the Apple REIT Six portfolio with the acquisition of our 68th hotel, a brand new Hilton Garden Inn® in Roanoke Rapids, North Carolina. The 147-room hotel is conveniently located just off of Interstate 95 near the new Carolina Crossroads entertainment venue. This property further diversifies the locations of our portfolio of lodging real estate. In anticipation of economic fluctuations in individual markets, we have strategically chosen hotels in a variety of locations throughout the United States in an effort to add greater stability to the Company's overall performance. It is our goal that our market diversification will collectively provide strong operations and result in additional benefit for our shareholders. A complete map of our locations can be seen on page 8.

While the outlook for our nation's economy in 2008 is uncertain, hotel industry analysts as well as hotel executives have predicted year over year gains in revenue of three- to five percent. I believe that our strong operations, unique capital structure, diversified portfolio of attractive lodging real estate, brand alliance and team of individuals dedicated to growing the value of your investment have solidified our program. As such, we are optimistic that Apple REIT Six will achieve results at or above industry averages. Our core goals of providing the highest possible shareholder returns, protecting shareholder principal and growing earnings will continue to guide our operations. As always, thank you for your investment. I look forward to sharing reports on our future successes with you.

Sincerely,

Clade M. Knight
Chairman and Chief Executive Officer



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Apple REIT SIX

4 APPLE REIT SIX

DIVERSIFICATION

Apple REIT Six, Inc. has strategically diversified our portfolio of hotels among 18 of the United States, within growing and stable markets that stretch from coast to coast and even Alaska. The Company has further diversified our program by collaborating with third-party hotel management companies in addition to our consistently strong Hilton® and Marriott® management partners. Skilled at the art of hospitality within our diverse markets and recipients of numerous lodging industry awards, our management partners include Inn Ventures, Larry Blumberg & Associates, Stonebridge Companies, Texas Western Hospitality Management and White Lodging Services. Even the core product of Apple REIT Six, the Company's strategic hotels, are diversified within the marketplace, including nearly every type of lodging—full-service, select-service and extended-stay—and a wide variety of the nation's leading hotel brands.

OUTSTANDING BRANDS

We have aligned our program with two leaders in the hotel industry, Marriott® and Hilton®. Both of these award-winning companies evoke a strong sense of familiarity with business and leisure travelers alike, allowing us the opportunity to leverage our business strategies with an already recognized family of brands. *FORTUNE Magazine* recently named Marriott® one of the top 100 companies to work for, marking the 11th consecutive year the company received the honor, and one of America's Most Admired Companies. *Condé Nast Traveler* named Marriott® a "World Saver" for their outstanding Community Engagement and Social Responsibility programs. Likewise, the Hilton® family of brands received awards from the J.D. Power and Associates 2007 North America Hotel Guest Satisfaction Index Study, including: Highest Guest Satisfaction Among Mid-Scale Hotel Chains with Full-Service (Hilton Garden Inn®) for six consecutive years; and Highest in Guest Satisfaction Among Extended Stay Hotel Chains for the fifth time (Homewood Suites by Hilton®).



LEFT SPREAD 1. HILTON GARDEN INN, SAN FRANCISCO, CALIFORNIA
2. SPRINGHILL SUITES, ARCADIA, CALIFORNIA 3. HILTON GARDEN INN, FREDERICKSBURG, VIRGINIA
4. RESIDENCE INN, LAKELAND, FLORIDA 5. MARRIOTT, REDMOND, WASHINGTON

RIGHT SPREAD 6. RESIDENCE INN, FORT WORTH, TEXAS 7. SPRINGHILL SUITES, DALLAS, TEXAS



SUPERIOR ASSET MANAGEMENT The asset management team at Apple REIT Six, Inc. diligently operates with the clear goal of maximizing hotel performance through superior hospitality service. Daily operations at our hotels are carefully monitored to ensure the best possible results on all measures of operational performance. We efficiently control our expenses without sacrificing the quality of our product. Through ongoing property renovations, we work to cost effectively improve our assets in ways that increase the value of your real estate investment over the long-term.

exceptional assets



GROWING SHAREHOLDER VALUE

As a result of our diligent asset management, Apple REIT Six, Inc. experienced an increase in results in 2007 which led the Company's Board of Directors to increase the annual dividend rate to \$.902, beginning in February of 2008. This results in a payout ratio of 89 percent of the Company's 2007 funds from operations.

TOP LEFT: HILTON GARDEN INN,
SARATOGA SPRINGS, NEW YORK

BOTTOM LEFT: HILTON GARDEN
INN, ANCHORAGE, ALASKA

BELOW: MARRIOTT, BOULDER,
COLORADO



market diversity

68 hotels. 7,897 guestrooms



| STATE / CITY | PROPERTY |
|-------------------|----------------------|
| ALABAMA | |
| Birmingham | Fairfield Inn |
| Dothan | Courtyard |
| Dothan | Hampton Inn & Suites |
| Huntsville | Fairfield Inn |
| Huntsville | Residence Inn |
| Montgomery | SpringHill Suites |
| Tuscaloosa | Courtyard |
| Tuscaloosa | Fairfield Inn |
| ALASKA | |
| Anchorage | Hampton Inn |
| Anchorage | Hilton Garden Inn |
| Anchorage | Homewood Suites |
| ARIZONA | |
| Phoenix | Hampton Inn |
| Tempe | SpringHill Suites |
| Tempe | TownePlace Suites |
| CALIFORNIA | |
| Arcadia | Hilton Garden Inn |
| Arcadia | SpringHill Suites |
| Bakersfield | Hilton Garden Inn |
| Folsom | Hilton Garden Inn |
| Foothill Ranch | Hampton Inn |
| Lake Forest | Hilton Garden Inn |
| Milpitas | Hilton Garden Inn |
| Roseville | Hilton Garden Inn |
| San Francisco | Hilton Garden Inn |

| STATE / CITY | PROPERTY |
|-----------------------|----------------------|
| COLORADO | |
| Boulder | Marriott |
| Denver Cherry Creek | Hampton Inn & Suites |
| Denver West Fed. Ctr. | Hampton Inn |
| CONNECTICUT | |
| Farmington | Courtyard |
| Rocky Hill | Residence Inn |
| Wallingford | Homewood Suites |
| FLORIDA | |
| Clearwater | SpringHill Suites |
| Lakeland | Residence Inn |
| Lake Mary | Courtyard |
| Orange Park | Fairfield Inn |
| Panama City | Courtyard |
| Pensacola | Courtyard |
| Pensacola | Fairfield Inn |
| Pensacola | Hampton Inn & Suites |
| Tallahassee | Hilton Garden Inn |
| GEORGIA | |
| Albany | Courtyard |
| Columbus | Residence Inn |
| Savannah | SpringHill Suites |
| Valdosta | Courtyard |
| NEW JERSEY | |
| Mt. Olive | Residence Inn |
| Somerset | Homewood Suites |
| NEW YORK | |
| Saratoga Springs | Hilton Garden Inn |
| NORTH CAROLINA | |
| Roanoke Rapids | Hilton Garden Inn |

| STATE / CITY | PROPERTY |
|-----------------------|-------------------|
| OREGON | |
| Hillsboro | TownePlace Suites |
| Hillsboro | Courtyard |
| Hillsboro | Residence Inn |
| Portland | Residence Inn |
| PENNSYLVANIA | |
| Pittsburgh | Residence Inn |
| SOUTH CAROLINA | |
| Myrtle Beach | Courtyard |
| TENNESSEE | |
| Nashville | Homewood Suites |
| TEXAS | |
| Arlington | SpringHill Suites |
| Arlington | TownePlace Suites |
| Dallas | SpringHill Suites |
| Fort Worth | Homewood Suites |
| Fort Worth | Residence Inn |
| Fort Worth | SpringHill Suites |
| Laredo | Homewood Suites |
| Laredo | Residence Inn |
| Las Colinas | TownePlace Suites |
| McAllen | Hilton Garden Inn |
| VERMONT | |
| Fredericksburg | Hilton Garden Inn |
| WASHINGTON | |
| Kent | TownePlace Suites |
| Mukilteo | TownePlace Suites |
| Redmond | Marriott |
| Renton | Hilton Garden Inn |



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2007

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number 000-51270

APPLE REIT SIX, INC.

(Exact name of registrant as specified in its charter)

VIRGINIA
(State of Organization)

20-0620523
(I.R.S. Employer Identification Number)

**814 EAST MAIN STREET
RICHMOND, VIRGINIA**
(Address of principal executive offices)

23219
(Zip Code)

(804) 344-8121
(Registrant's telephone number, including area code)

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APR 04 2008

Washington, DC 20549

Securities registered pursuant to Section 12(b) of the act: None

Securities registered pursuant to Section 12(g) of the Act:

Units (Each Unit is equal to one common share, no par value and one Series A preferred share)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405, this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There is currently no established public market in which the Company's common shares are traded. Based upon the price that Apple REIT Six, Inc.'s common equity last sold, which was \$11, on June 30, 2007, the aggregate market value of the voting common equity held by non-affiliates of the registrant on such date was \$987,709,000. The Company does not have any non-voting common equity.

Number of registrant's common shares outstanding as of February 29, 2008: 90,413,711

Documents Incorporated by Reference.

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference from the registrant's definitive proxy statement for the annual meeting of shareholders to be held on May 8, 2008.

APPLE REIT SIX, INC.

FORM 10-K

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Signatures

This Form 10-K includes references to certain trademarks or service marks. The SpringHill Suites® by Marriott, TownePlace Suites® by Marriott, Fairfield Inn® by Marriott, Courtyard® by Marriott, Residence Inn® by Marriott and Marriott Suites® trademarks are the property of Marriott International, Inc. or one of its affiliates. The Homewood Suites® by Hilton, Hilton Garden Inn®, Hampton Inn® and Hampton Inn & Suites® trademarks are the property of Hilton Hotels Corporation or one or more of its affiliates. For convenience, the applicable trademark or servicemark symbol has been omitted but will be deemed to be included wherever the above-referenced terms are used.

PART I

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of Apple REIT Six, Inc. ("the Company") to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the ability of the Company to implement its acquisition strategy and operating strategy; the Company's ability to manage planned growth; changes in economic cycles and competition within the hotel industry. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore there can be no assurance that such statements included in this Annual Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the results or conditions described in such statements or the objectives and plans of the Company will be achieved. In addition, the Company's qualification as a real estate investment trust involves the application of highly technical and complex provisions of the Internal Revenue Code. Readers should carefully review the Company's financial statements and the notes thereto, as well as the risk factors described in the Company's filings with the Securities and Exchange Commission and Item 1A.

Item 1. Business

Apple REIT Six, Inc. is a Virginia corporation formed to invest in hotels and other selected real estate in select metropolitan areas in the United States. Initial capitalization occurred on January 20, 2004 and operations began on May 28, 2004 when the Company acquired its first hotel.

The Company is a real estate investment trust ("REIT") which owns hotels in the United States. The REIT Modernization Act, effective January 1, 2001, permits real estate investment trusts to establish taxable businesses to conduct certain previously disallowed business activities. The Company has wholly-owned taxable REIT subsidiaries which lease all of the Company's hotels from wholly-owned qualified REIT subsidiaries. The hotels are operated and managed by affiliates of Marriott International, Inc. ("Marriott"), Stonebridge Realty Advisors, Inc. ("Stonebridge"), Hilton Hotels Corporation ("Hilton"), Western International ("Western"), Larry Blumberg & Associates ("LBA"), White Lodging Services Corporation ("WLS"), or Inn Ventures, Inc. ("Inn Ventures") under separate hotel management agreements.

The Company has no foreign operations or assets and its operating structure includes only one segment. The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation. Refer to Part II, Item 8 of this report, for the consolidated financial statements.

Website Access

The address of the Company's Internet website is www.applereitsix.com. The Company makes available free of charge through its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

Business Objectives

The Company's primary objective is to enhance shareholder value by increasing funds from operations and cash available for distributions through internal growth and selective hotel renovation. This strategy includes

utilizing the Company's asset management expertise to improve the quality of the Company's hotels by aggressively managing room rates, partnering with industry leaders in hotel management and franchising the hotels with leading brands, thereby improving hotel revenue and operating performance. When cost effective, the Company renovates its properties to increase its ability to compete in particular markets. The Company believes its planned renovations and strong asset management will continue to improve financial results, although there can be no assurance of such results.

As of December 31, 2007, the Company owned 67 hotels and, through its wholly-owned subsidiaries, had entered into a contract for the purchase of an additional hotel for a purchase price of approximately \$15.2 million. The Company expects to acquire this hotel in the first quarter of 2008 and to pay the purchase price from cash on hand.

Financing

Six of the Company's notes payable have balloon payments that are due in April or May of 2008, totaling approximately \$16.5 million. The Company anticipates entering into a line of credit to fund these payments along with general working capital needs. Although there can be no assurance that additional debt will not be utilized, it is anticipated that cash on hand, cash from operations and the line of credit will satisfy the Company's cash requirements. The Company's bylaws require board approval and review of any debt financing obtained by the Company.

Industry and Competition

The hotel industry is highly competitive. Each of the Company's hotels is located in a developed area that includes other hotels and competes for guests primarily with other hotels in the Company's immediate vicinity and secondarily with other hotels in the Company's geographic market. An increase in the number of competitive hotels in a particular area could have a material adverse effect on the occupancy, average daily rate ("ADR") and revenue per available room ("RevPAR") of the Company's hotels in that area. The Company believes that brand recognition, location, price and quality (of both the hotel and the services provided) are the principal competitive factors affecting the Company's hotels. Additionally, general economic conditions in a particular market, or nationally, can impact the performance of the hotels.

Hotel Operating Performance

As of December 31, 2007, the Company owned thirteen Hilton Garden Inn hotels, ten Residence Inn hotels, ten Courtyard hotels, eight SpringHill Suites hotels, six Homewood Suites hotels, six TownePlace Suites hotels, five Fairfield Inn hotels, four Hampton Inn hotels, three Hampton Inn & Suites hotels and two full service Marriott hotels. They are located in various states and, in aggregate, consist of 7,750 rooms.

Room revenue for these hotels totaled \$236.3 million in 2007, and the hotels achieved average occupancy of 74%, ADR of \$113 and RevPAR of \$84, compared with \$217.6 million of room revenue, average occupancy of 74%, ADR of \$105 and RevPAR of \$78 for the period owned in 2006. The Company began 2006 with 62 hotels and acquired 5 additional hotels during the first half of 2006. In general, performance at the Company's hotels have met expectations for the period held. Hotel performance is impacted by many factors including the economic conditions in the United States, as well as each locality. As a result, there can be no assurance that the Company's operating performance will continue to meet expectations in the future.

Management and Franchise Agreements

Each of the Company's 67 hotels are operated and managed, under separate management agreements, by affiliates of one of the following companies: Marriott, Stonebridge, Hilton, Western, LBA, WLS, or Inn Ventures. The agreements have remaining terms ranging from 3 to 27 years. Fees associated with the agreements

generally include the payment of base management fees, incentive management fees, accounting fees, and other fees for centralized services which are allocated among all of the hotels that receive the benefit of such services. Base management fees are calculated as a percentage of gross revenues. Incentive management fees are calculated as a percentage of operating profit in excess of a priority return to the Company, as defined in the management agreements. The Company has the option to terminate the management agreements if specified performance thresholds are not satisfied. During the years ended December 31, 2007 and 2006, the Company incurred approximately \$9.9 and \$8.7 million in management fees.

Stonebridge, Western, LBA, WLS, and Inn Ventures are not affiliated with either Marriott or Hilton, and as a result, the hotels managed by these companies were required to obtain separate franchise agreements with each respective franchisor. The Hilton franchise agreements generally provide for a term of 13 to 20 years. Fees associated with the Hilton agreements generally include the payment of royalty fees and program fees based on room revenues. The Marriott franchise agreements provide for an initial term of 15 to 20 years. Fees associated with the Marriott agreements include the payment of royalty fees, marketing fees, reservation fees and a communications support fee based on room revenues. During the years ended December 31, 2007 and 2006, the Company incurred approximately \$10.3 and \$9.0 million in franchise fees.

Maintenance

The hotels have an ongoing need for renovation and refurbishment. Under various hotel management agreements, the Company has agreed to fund expenditures for periodic repairs, replacement or refurbishment of furniture, fixtures and equipment for the hotels in an amount equal to a certain percentage of gross revenues. In addition, other capital improvement projects are directly funded by the Company. During 2007 the Company incurred approximately \$10.3 million in capital expenditures.

Employees

During 2007, all employees involved in the day-to-day operation of the Company's hotels were employed by third party management companies engaged pursuant to the hotel management agreements. At December 31, 2007, the Company had 33 employees.

Environmental Matters

In connection with each of the Company's hotel acquisitions, the Company obtains a Phase I Environmental Report and additional environmental reports and surveys, as are necessitated by the preliminary report. Based on the reports, the Company is not aware of any environmental situations requiring remediation at the Company's properties, which have not been, or are not currently being remediated. No material remediation costs have or are expected to occur.

Property Acquisition

As of December 31, 2007, the Company had an outstanding contract for the purchase of a hotel located in Roanoke Rapids, North Carolina. The hotel is anticipated to be acquired in the first quarter of 2008 for approximately \$15.2 million, has 147 rooms and operates as a Hilton Garden Inn.

Related Parties

The Company has significant transactions with related parties. These transactions cannot be construed to be arms length, and the results of the Company's operations may be different if these transactions were conducted with non-related parties.

The Company has a contract with Apple Six Realty Group ("ASRG"), a related party, to provide brokerage services for the acquisition and disposition of the Company's real estate assets. In accordance with the contract,

ASRG is paid a fee of 2% of the gross purchase price of any acquisitions or gross sale price of any dispositions of real estate investments, subject to certain conditions. As of December 31, 2007, payments to ASRG for services under the terms of this contract have totaled \$16.6 million since inception, which were capitalized as a part of the purchase price of the hotels. There were no fees incurred during 2007 under this contract.

The Company is party to an advisory agreement with Apple Six Advisors, Inc. ("ASA"), pursuant to which ASA provides management services to the Company. An annual fee ranging from .1% to .25% of total equity proceeds received by the Company, in addition to certain reimbursable expenses, are payable for these services.

Through its wholly-owned subsidiary, Apple Fund Management, LLC, the Company provides support services to ASRG, Apple Suites Realty Group, Inc. ("Suites"), ASA, Apple Seven Advisors, Inc. ("A7A"), Apple REIT Seven, Inc., Apple Eight Advisors, Inc. ("A8A"), Apple REIT Eight, Inc. and Apple REIT Nine, Inc. A7A provides day to day advisory and administrative functions for Apple REIT Seven, Inc. A8A provides day to day advisory and administrative functions for Apple REIT Eight, Inc. Suites provides real estate brokerage services to Apple REIT Seven, Inc. and Apple REIT Eight, Inc. Each of these companies has agreed to reimburse the Company for its costs in providing these services. ASRG, ASA, A7A, A8A and Apple REIT Nine, Inc. are 100% owned by Glade Knight, the Company's Chairman and Chief Executive Officer.

Including ASRG, Suites, ASA, A7A, A8A and Apple REIT Nine, Inc. discussed above, Mr. Knight is also Chairman and CEO of Apple REIT Seven, Inc. (a diversified REIT) and Apple REIT Eight, Inc. (a newly formed company that intends to qualify as a diversified REIT). Members of the Company's Board of Directors are also on the boards of Apple REIT Seven, Inc. and Apple REIT Eight, Inc.

Item 1A. Risk Factors

The following describes several risk factors which are applicable to the Company.

Hotel Operations

The Company's hotels are subject to all of the risks common to the hotel industry. These risks could adversely affect hotel occupancy and the rates that can be charged for hotel rooms as well as hotel operating expenses, and generally include:

- increases in supply of hotel rooms that exceed increases in demand;
- increases in energy costs and other travel expenses that reduce business and leisure travel;
- reduced business and leisure travel due to continued geo-political uncertainty, including terrorism;
- adverse effects of declines in general and local economic activity; and
- adverse effects of a downturn in the hotel industry.

General Economic Conditions

Changes in general or local economic or market conditions, increased costs of energy, increased costs of insurance, increased costs of products, increased costs and shortages of labor, competitive factors, fuel shortages, quality of management, the ability of a hotel chain to fulfill any obligations to operators of its hotel business, limited alternative uses for the building, changing consumer habits, condemnation or uninsured losses, changing demographics, changing traffic patterns, inability to remodel outmoded buildings as required by the franchise or lease agreement and other factors beyond the Company's control may reduce the value of properties that the Company owns. As a result, cash available to make distributions to shareholders may be affected.

Hospitality Industry

The success of the Company's properties will depend largely on the property operators' ability to adapt to dominant trends in the hotel industry as well as greater competitive pressures, increased consolidation, industry

overbuilding, dependence on consumer spending patterns and changing demographics, the introduction of new concepts and products, availability of labor, price levels and general economic conditions. The success of a particular hotel brand, the ability of a hotel brand to fulfill any obligations to operators of its business, and trends in the hotel industry may affect the Company's income and the funds it has available to distribute to shareholders.

The hospitality industry could also experience a significant decline in occupancy and average daily rates due to a reduction in both business and leisure travel. General economic conditions, increased fuel costs, natural disasters and terrorist attacks are a few factors that could affect an individual's willingness to travel. The Company's property insurance will typically cover losses for property damage due to terrorist attacks or natural disasters. However, the Company is not insured against the potential negative effect a terrorist attack or natural disaster would have on the hospitality industry as a whole.

Seasonality

The hotel industry is seasonal in nature. Generally, occupancy rates and hotel revenues are greater in the second and third quarters than in the first and fourth quarters. As a result, there may be quarterly fluctuations in results of operations. As a result, the Company may need to enter into short-term borrowing in certain periods in order to offset these fluctuations in revenues and to make distributions to shareholders.

Franchise Agreements

The Company's wholly-owned taxable REIT subsidiaries operate all of the properties pursuant to franchise or license agreements with nationally recognized hotel brands. These agreements contain specific standards for, and restrictions and limitations on, the operation and maintenance of the Company's properties in order to maintain uniformity within the franchisor system. These standards could potentially conflict with the Company's ability to create specific business plans tailored to each property and to each market.

Competition

The hotel industry is highly competitive. Each of the Company's hotels is located in a developed area that includes other hotels and competes for guests primarily with other hotels in the Company's immediate vicinity and secondarily with other hotels in the Company's geographic market. An increase in the number of competitive hotels in a particular area could have a material adverse effect on the occupancy, average daily rate ("ADR") and revenue per available room ("RevPAR") of the Company's hotels in that area. In addition, increases in operating costs due to inflation may not be offset by increased room rates.

Transferability of Shares

There will be no public trading market for the common shares and the Series A preferred shares for an indefinite period of time, if ever. Therefore, the Units will be highly illiquid and very difficult to trade. In addition, there are restrictions on the transfer of our common shares. In order to qualify as a REIT, our shares must be beneficially owned by 100 or more persons and no more than 50% of the value of our issued and outstanding shares may be owned directly or indirectly by five or fewer individuals. Therefore, our bylaws provide that no person may own more than 9.8% of the issued and outstanding Units. Any purported transfer of our shares that would result in a violation of either of these limits will be declared null and void.

Qualification as a REIT

The rules governing a REIT are highly technical and complex. They require ongoing compliance with a variety of tests that depend on, among other things, future operations. While the Company expects to satisfy these tests, it cannot ensure it will qualify as a REIT for any particular year. There is also the risk that the applicable laws governing a REIT could be changed, which could adversely affect the Company and its shareholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2007, the Company owned 67 hotels consisting of the following:

| <u>Brand</u> | <u>Total by Brand</u> | <u>Number of Rooms</u> |
|----------------------------|---------------------------|----------------------------|
| Hilton Garden Inn | 13 | 1,646 |
| Residence Inn | 10 | 1,247 |
| Courtyard | 10 | 993 |
| SpringHill Suites | 8 | 858 |
| Homewood Suites | 6 | 713 |
| TownePlace Suites | 6 | 766 |
| Fairfield Inn | 5 | 351 |
| Hampton Inn | 4 | 454 |
| Hampton Inn & Suites | 3 | 303 |
| Marriott | 2 | 419 |
| Total | <u>67</u> | <u>7,750</u> |

The following table includes the location of each hotel, the date of construction, the date acquired, encumbrances, initial acquisition cost, gross carrying value and the number of rooms of each hotel.

**Real Estate and Accumulated Depreciation
As of December 31, 2007
(dollars in thousands)**

| City | State | Brand | Encumbrances | Initial Cost | | Total Gross Cost | Acc Deprec | Date of Construction | Date Acquired | Depreciable Life | # of Rooms |
|----------------|-------------|----------------------|--------------|--------------|------------|---------------------|---------------|-------------------------|------------------|---------------------|---------------|
| | | | | Land | Bldg./FF&E | | | | | | |
| Birmingham | Alabama | Fairfield Inn | \$1,952 | \$ 354 | \$ 2,057 | \$ 2,510 | \$ (166) | 1995 | Aug-05 | 3 - 39 yrs. | 63 |
| Dothan | Alabama | Courtyard | 3,034 | 1,270 | 7,142 | 8,557 | (574) | 1996 | Aug-05 | 3 - 39 yrs. | 78 |
| Dothan | Alabama | Hampton Inn & Suites | — | 842 | 8,129 | 8,992 | (710) | 2004 | Jun-05 | 3 - 39 yrs. | 85 |
| Huntsville | Alabama | Fairfield Inn | 2,896 | 506 | 4,813 | 5,400 | (319) | 1999 | Sep-05 | 3 - 39 yrs. | 79 |
| Montgomery | Alabama | Residence Inn | — | 947 | 7,632 | 8,651 | (606) | 2002 | Jun-05 | 3 - 39 yrs. | 78 |
| Tuscaloosa | Alabama | SpringHill Suites | 3,620 | 963 | 6,327 | 7,349 | (417) | 1998 | Sep-05 | 3 - 39 yrs. | 79 |
| Tuscaloosa | Alabama | Courtyard | 3,169 | — | 7,953 | 8,154 | (578) | 1996 | Aug-05 | 3 - 39 yrs. | 78 |
| Tuscaloosa | Alabama | Fairfield Inn | 1,580 | — | 4,240 | 4,350 | (308) | 1996 | Aug-05 | 3 - 39 yrs. | 63 |
| Anchorage | Alaska | Hampton Inn | 4,903 | 1,220 | 10,501 | 13,636 | (1,265) | 1997 | Mar-05 | 3 - 39 yrs. | 101 |
| Anchorage | Alaska | Hilton Garden Inn | — | 4,230 | 14,788 | 19,243 | (1,460) | 2002 | Oct-04 | 3 - 39 yrs. | 125 |
| Anchorage | Alaska | Homewood Suites | — | 1,803 | 11,046 | 12,908 | (1,264) | 2004 | Oct-04 | 3 - 39 yrs. | 122 |
| Phoenix | Arizona | Hampton Inn | — | 1,425 | 5,205 | 770 | (727) | 1998 | Oct-04 | 3 - 39 yrs. | 99 |
| Tempe | Arizona | SpringHill Suites | — | 1,170 | 7,159 | 8,370 | (635) | 1998 | Jun-05 | 3 - 39 yrs. | 121 |
| Tempe | Arizona | TownePlace Suites | — | 1,226 | 7,169 | 8,455 | (628) | 1998 | Jun-05 | 3 - 39 yrs. | 119 |
| Arcadia | California | Hilton Garden Inn | — | 1,718 | 10,195 | 12,639 | (1,218) | 1999 | Oct-04 | 3 - 39 yrs. | 124 |
| Arcadia | California | SpringHill Suites | — | 1,633 | 6,459 | 8,870 | (842) | 1999 | Oct-04 | 3 - 39 yrs. | 86 |
| Bakersfield | California | Hilton Garden Inn | — | 1,166 | 10,565 | 11,823 | (1,057) | 2004 | Mar-05 | 3 - 39 yrs. | 120 |
| Folsom | California | Hilton Garden Inn | — | 1,521 | 16,989 | 19,593 | (1,220) | 1999 | Nov-05 | 3 - 39 yrs. | 100 |
| FootHill Ranch | California | Hampton Inn | 4,287 | 1,056 | 6,499 | 8,284 | (718) | 1998 | Apr-05 | 3 - 39 yrs. | 84 |
| Lake Forest | California | Hilton Garden Inn | — | 1,541 | 9,425 | 11,035 | (1,082) | 2004 | Oct-04 | 3 - 39 yrs. | 103 |
| Milpitas | California | Hilton Garden Inn | — | 2,565 | 16,534 | 20,822 | (1,343) | 1999 | Nov-05 | 3 - 39 yrs. | 161 |
| Roseville | California | Hilton Garden Inn | — | 2,362 | 18,937 | 22,702 | (1,418) | 1999 | Nov-05 | 3 - 39 yrs. | 131 |
| San Francisco | California | Hilton Garden Inn | — | 2,007 | 9,545 | 13,408 | (931) | 1999 | Jan-06 | 3 - 39 yrs. | 169 |
| Boulder | Colorado | Marriott | — | 3,066 | 27,825 | 32,612 | (2,530) | 1997 | May-05 | 3 - 39 yrs. | 157 |
| Glendale | Colorado | Hampton Inn & Suites | 5,964 | 3,641 | 11,221 | 16,041 | (1,373) | 1999 | Oct-04 | 3 - 39 yrs. | 133 |
| Lakewood | Colorado | Hampton Inn | — | 2,508 | 8,090 | 10,975 | (988) | 2003 | Oct-04 | 3 - 39 yrs. | 170 |
| Farmington | Connecticut | Courtyard | — | 1,794 | 15,434 | 17,229 | (1,076) | 2005 | Oct-05 | 3 - 39 yrs. | 119 |
| Rocky Hill | Connecticut | Residence Inn | — | 1,472 | 11,284 | 12,759 | (862) | 2005 | Aug-05 | 3 - 39 yrs. | 96 |
| Wallingford | Connecticut | Homewood Suites | — | 1,419 | 12,072 | 13,519 | (958) | 2005 | Jul-05 | 3 - 39 yrs. | 104 |
| Clearwater | Florida | SpringHill Suites | — | — | 7,214 | 7,214 | (469) | 2006 | Feb-06 | 3 - 39 yrs. | 79 |
| Lake Mary | Florida | Courtyard | — | 690 | 5,568 | 6,846 | (571) | 1995 | Mar-05 | 3 - 39 yrs. | 86 |
| Lakeland | Florida | Residence Inn | — | 1,520 | 8,699 | 10,820 | (689) | 2001 | Jun-05 | 3 - 39 yrs. | 78 |
| Orange Park | Florida | Fairfield Inn | 3,071 | 855 | 6,979 | 7,915 | (424) | 1998 | Nov-05 | 3 - 39 yrs. | 83 |
| Panama City | Florida | Courtyard | — | 1,407 | 8,217 | 9,628 | (499) | 2006 | Mar-06 | 3 - 39 yrs. | 84 |
| Pensacola | Florida | Courtyard | 4,264 | 1,186 | 10,728 | 12,115 | (760) | 1997 | Aug-05 | 3 - 39 yrs. | 90 |
| Pensacola | Florida | Fairfield Inn | 2,559 | 470 | 4,703 | 5,296 | (326) | 1995 | Aug-05 | 3 - 39 yrs. | 63 |
| Tallahassee | Florida | Hampton Inn & Suites | — | 1,248 | 8,354 | 9,608 | (724) | 2005 | Jul-05 | 3 - 39 yrs. | 85 |
| Albany | Georgia | Hilton Garden Inn | — | 1,103 | 10,130 | 11,717 | (935) | 1997 | Mar-05 | 3 - 39 yrs. | 99 |
| Columbus | Georgia | Courtyard | — | 1,253 | 7,658 | 8,974 | (670) | 2004 | Jun-05 | 3 - 39 yrs. | 84 |
| Savannah | Georgia | Residence Inn | — | — | 8,184 | 8,270 | (677) | 2003 | Jun-05 | 3 - 39 yrs. | 78 |
| Savannah | Georgia | SpringHill Suites | 2,933 | 693 | 5,099 | 5,816 | (335) | 1999 | Sep-05 | 3 - 39 yrs. | 79 |

Real Estate and Accumulated Depreciation—(Continued)
As of December 31, 2007
(dollars in thousands)

| City | State | Brand | Encumbrances | Initial Cost | | Subsequently Capitalized | Total Gross Cost | Acc Deprec | Date of Construction | Date Acquired | Depreciable Life | # of Rooms |
|--|----------------|-------------------|-----------------|------------------|------------------|--------------------------|------------------|-------------------|----------------------|---------------|------------------|--------------|
| | | | | Land | Bldg./FF&E | Bldg. Imp. & FF&E | | | | | | |
| Valdosta | Georgia | Courtyard | — | 1,036 | 7,529 | 118 | 8,683 | (551) | 2002 | Oct-05 | 3 - 39 yrs. | 84 |
| Mt. Olive | New Jersey | Residence Inn | — | 1,410 | 11,331 | 11 | 12,752 | (879) | 2005 | Sep-05 | 3 - 39 yrs. | 123 |
| Somerset | New Jersey | Homewood Suites | — | 1,813 | 16,801 | 42 | 18,656 | (1,256) | 2005 | Aug-05 | 3 - 39 yrs. | 123 |
| Saratoga Springs | New York | Hilton Garden Inn | — | 2,399 | 15,885 | 240 | 18,524 | (1,046) | 1999 | Sep-05 | 3 - 39 yrs. | 112 |
| Hillsboro | Oregon | Courtyard | 6,454 | 1,879 | 9,484 | 69 | 11,432 | (542) | 1996 | Mar-06 | 3 - 39 yrs. | 155 |
| Hillsboro | Oregon | Residence Inn | — | 2,665 | 13,295 | 72 | 16,032 | (816) | 1994 | Mar-06 | 3 - 39 yrs. | 122 |
| Hillsboro | Oregon | TownePlace Suites | — | 2,150 | 9,715 | 587 | 12,452 | (674) | 1999 | Dec-05 | 3 - 39 yrs. | 136 |
| Portland | Oregon | Residence Inn | — | 4,400 | 38,687 | 1,889 | 44,976 | (2,391) | 2001 | Dec-05 | 3 - 39 yrs. | 258 |
| Pittsburgh | Pennsylvania | Residence Inn | — | 1,161 | 10,267 | 1,500 | 12,928 | (948) | 1998 | Sep-05 | 3 - 39 yrs. | 156 |
| Myrtle Beach | South Carolina | Courtyard | — | 1,857 | 7,631 | 940 | 10,428 | (1,116) | 1999 | Jun-04 | 3 - 39 yrs. | 135 |
| Nashville | Tennessee | Homewood Suites | — | 1,170 | 7,177 | 483 | 8,830 | (729) | 1999 | May-05 | 3 - 39 yrs. | 121 |
| Arlington | Texas | SpringHill Suites | — | 1,122 | 6,649 | 39 | 7,810 | (594) | 1998 | Jun-05 | 3 - 39 yrs. | 122 |
| Arlington | Texas | TownePlace Suites | — | 1,033 | 6,373 | 66 | 7,472 | (554) | 1999 | Jun-05 | 3 - 39 yrs. | 95 |
| Dallas | Texas | SpringHill Suites | — | 1,372 | 18,737 | 333 | 20,442 | (1,298) | 1997 | Dec-05 | 3 - 39 yrs. | 147 |
| Fort Worth | Texas | Homewood Suites | — | 1,152 | 8,210 | 504 | 9,866 | (850) | 1999 | May-05 | 3 - 39 yrs. | 137 |
| Fort Worth | Texas | Residence Inn | — | 1,873 | 15,586 | 13 | 17,472 | (1,348) | 2005 | May-05 | 3 - 39 yrs. | 149 |
| Fort Worth | Texas | SpringHill Suites | — | 2,125 | 11,619 | — | 13,744 | (1,366) | 2004 | May-04 | 3 - 39 yrs. | 145 |
| Laredo | Texas | Homewood Suites | — | 1,118 | 9,781 | 11 | 10,910 | (727) | 2005 | Nov-05 | 3 - 39 yrs. | 106 |
| Laredo | Texas | Residence Inn | — | 902 | 10,969 | 16 | 11,887 | (860) | 2005 | Sep-05 | 3 - 39 yrs. | 109 |
| Las Colinas | Texas | TownePlace Suites | — | 1,205 | 6,256 | 32 | 7,493 | (595) | 1998 | Jun-05 | 3 - 39 yrs. | 136 |
| McAllen | Texas | Hilton Garden Inn | — | 1,178 | 8,143 | 444 | 9,765 | (699) | 2000 | Jul-05 | 3 - 39 yrs. | 104 |
| Fredericksburg | Virginia | Hilton Garden Inn | — | 1,822 | 15,362 | 66 | 17,250 | (1,078) | 2005 | Dec-05 | 3 - 39 yrs. | 148 |
| Richmond | Virginia | Corporate Office | — | 381 | 1,038 | 3,284 | 4,703 | (605) | 1893 | Jun-04 | 3 - 39 yrs. | N/A |
| Kent | Washington | TownePlace Suites | — | 1,841 | 10,721 | 558 | 13,120 | (745) | 1999 | Dec-05 | 3 - 39 yrs. | 152 |
| Mukilteo | Washington | TownePlace Suites | — | 1,505 | 11,055 | 528 | 13,088 | (737) | 1999 | Dec-05 | 3 - 39 yrs. | 128 |
| Redmond | Washington | Marriott | — | 9,504 | 56,168 | 328 | 66,000 | (6,104) | 2004 | Jul-04 | 3 - 39 yrs. | 262 |
| Renton | Washington | Hilton Garden Inn | — | 1,277 | 14,674 | 1,682 | 17,633 | (1,232) | 1998 | Nov-05 | 3 - 39 yrs. | 150 |
| Deposits on Construction in Progress | | | | | | 307 | 307 | — | | | | |
| | | | <u>\$50,686</u> | <u>\$107,200</u> | <u>\$745,911</u> | <u>\$32,049</u> | <u>\$885,160</u> | <u>\$(64,692)</u> | | | | <u>7,750</u> |

Investment in hotels at December 31, 2007, consisted of the following (in thousands):

| | |
|---|-------------------------|
| Land | \$107,163 |
| Building and Improvements | 728,005 |
| Furniture, Fixtures and Equipment | <u>49,992</u> |
| | 885,160 |
| Less Accumulated Depreciation | <u>(64,692)</u> |
| Investment in Hotels, net | <u><u>\$820,468</u></u> |

For additional information about the Company's properties, refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 3. Legal Proceedings

The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any litigation threatened against the Company or any of its properties, other than routine actions arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on the Company's business or financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Shares

There is currently no established public market in which the Company's common shares are traded. As of December 31, 2007, there were 90,280,401 Units outstanding. Each Unit is equal to one common share, no par value, and one Series A preferred share of the Company. The per-share estimated market value is deemed to be the offering price of the shares, which is currently \$11.00 per share. This is supported by the fact that the Company is currently selling shares to the public at a price of \$11.00 per share through its Dividend Reinvestment Plan and the Company is repurchasing shares at \$11.00 from shareholders under its Unit Redemption Program. The Units are held by approximately 21,000 beneficial shareholders.

Dividend Reinvestment Plan

In February 2006, the Company instituted a Dividend Reinvestment Plan for its shareholders. The plan provides a convenient and cost effective way to increase shareholder investment in the Company by reinvesting dividends to purchase additional Units of the Company. The uses of the proceeds from this plan may include purchasing Units under the Company's Unit Redemption Program, enhancing properties, satisfying financing obligations and other expenses, increasing working capital, funding various corporate operations, and acquiring hotels. As of December 31, 2007, approximately 5.0 million Units, representing \$55.3 million in proceeds to the Company, have been issued under the plan.

Unit Redemption Program

In July 2005, the Company instituted a Unit Redemption Program to provide limited interim liquidity to its shareholders who have held their Units for at least one year. Shareholders may request redemption of Units for a purchase price equal to the lesser of: (1) the purchase price per Unit that the shareholder actually paid for the Unit; or (2) \$11.00 per Unit. The Company reserves the right to change the purchase price of redemptions, reject any request for redemption, or otherwise amend the terms of, suspend, or terminate the Unit Redemption Program. As of December 31, 2007, the Company has redeemed approximately 5.9 million Units in the amount of \$64.4 million under the program. The following is a summary of redemptions during the fourth quarter of 2007:

Issuer Purchases of Equity Securities

| <u>Period</u> | <u>(a)</u> Total Number of Units Purchased | <u>(b)</u> Average Price Paid per Unit | <u>(c)</u> Total Number of Units Purchased as Part of Publicly Announced Plans or Programs | <u>(d)</u> Maximum Number of Units that May Yet Be Purchased Under the Plans or Programs |
|--------------------|---|--|---|---|
| October 2007 | 457,598 | \$10.98 | 5,874,300 | (1) |

- (1) The maximum number of Units that may be redeemed in any 12 month period is limited to five percent (5.0%) of the weighted average number of Units outstanding from the beginning of the 12 month period.

Series A Preferred Shares

The Series A preferred shares have no voting rights and no conversion rights. In addition, the Series A preferred shares are not separately tradable from the common shares to which they relate. The Series A preferred shares do not have any distribution rights except a priority distribution upon the sale of the Company's assets.

The priority distribution ("Priority Distribution") will be equal to \$11.00 per Series A preferred share, and will be paid before any distribution will be made to the holders of any other shares. Upon the Priority Distribution, the Series A preferred shares will have no other distribution rights.

Series B Convertible Preferred Shares

The Company currently has 240,000 Series B convertible preferred shares issued and outstanding, all owned by Glade M. Knight, the Company's Chairman and Chief Executive Officer. There are no dividends payable on the Series B convertible preferred shares. Holders of more than two-thirds of the Series B convertible preferred shares must approve any proposed amendment to the Articles of Incorporation that would adversely affect the Series B convertible preferred shares. Upon liquidation, each holder of the Series B convertible preferred shares is entitled to a priority liquidation payment. However, the priority liquidation payment of the holder of the Series B convertible preferred shares is junior to the holders of the Series A preferred shares distribution rights. The holder of a Series B convertible preferred share is entitled to a liquidation payment of \$11 per number of common shares into which each Series B convertible preferred share would convert. In the event that the liquidation of the Company's assets results in proceeds that exceed the distribution rights of the Series A preferred shares and the Series B convertible preferred shares, the remaining proceeds will be distributed between the common shares and the Series B convertible preferred shares, on an as converted basis. The Series B convertible preferred shares are convertible into Units upon and for 180 days following the occurrence of any of the following events: (1) substantially all of the Company's assets, stock or business is sold or transferred through exchange, merger, consolidation, lease, share exchange or otherwise, other than a sale of assets in liquidation, dissolution or winding up of the Company's business; or (2) the termination or expiration without renewal of the advisory agreement with Apple Six Advisors, Inc., or if the Company ceases to use Apple Six Realty Group, Inc. to provide property acquisition and disposition services; or (3) the Company's common shares are listed on any securities exchange or quotation system or in any established market.

Preferred Shares

The Company's articles of incorporation authorize issuance of up to 15 million additional preferred shares. No preferred shares other than the Series A preferred shares and the Series B convertible preferred shares (discussed above) have been issued. The Company believes that the authorization to issue additional preferred shares benefits the Company and its shareholders by permitting flexibility in financing additional growth, giving the Company additional financing options in corporate planning and in responding to developments in business, including financing of additional acquisitions and other general corporate purposes. Having authorized preferred shares available for issuance in the future gives the Company the ability to respond to future developments and allows preferred shares to be issued without the expense and delay of a special shareholders' meeting. At present, the Company has no specific financing or acquisition plans involving the issuance of additional preferred shares and the Company does not propose to fix the characteristics of any series of preferred shares in anticipation of issuing preferred shares other than the Series A preferred shares and Series B convertible preferred shares discussed above. The Company cannot now predict whether or to what extent, if any, additional preferred shares will be used or if so used what the characteristics of a particular series may be. The voting rights and rights to distributions of the holders of common shares will be subject to the prior rights of the holders of any subsequently-issued preferred shares. Unless otherwise required by applicable law or regulation, the preferred shares would be issuable without further authorization by holders of the common shares and on such terms and for such consideration as may be determined by the Board of Directors. The preferred shares could be issued in one or more series having varying voting rights, redemption and conversion features, distribution (including liquidating distribution) rights and preferences, and other rights, including rights of approval of specified transactions. A series of preferred shares could be given rights that are superior to rights of holders of common shares and a series having preferential distribution rights could limit common share distributions and reduce the amount holders of common shares would otherwise receive on dissolution.

Distribution Policy

To maintain its REIT status the Company is required to distribute at least 90% of its ordinary income. Distributions in 2007 totaled \$78.8 million and were paid monthly at a rate of \$0.073 per common share. Distributions in 2006 totaled \$78.0 million and were paid monthly at a rate of \$0.073 per common share. The timing and amounts of distributions to shareholders are within the discretion of the Company's Board of Directors. The amount and frequency of future distributions will depend on the Company's results of operations, cash flow from operations, economic conditions, working capital requirements, cash requirements to fund investing and financing activities, capital expenditure requirements, including improvements to and expansions of properties and the acquisition of additional properties, as well as the distribution requirements under federal income tax provisions for qualification as a REIT.

Non-Employee Directors Stock Option Plan and Incentive Plan

The Company's board of directors has adopted and the Company's shareholders have approved a Non-Employee Directors Stock Option Plan and an Incentive Plan. The options issued under each plan, upon exercise, convert to Units. Each Unit is equal to one common share and one Series A preferred share of the Company. As of December 31, 2007, options to purchase 215,812 Units were outstanding with a weighted average exercise price of \$11 per Unit. The following is a summary of securities issued under the plans as of December 31, 2007:

| <u>Plan Category</u> | <u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> | <u>Weighted-average exercise price of outstanding options, warrants and rights</u> | <u>Number of securities remaining available for future issuance under equity compensation plans</u> |
|---|--|--|---|
| <i>Equity Compensation plans approved by security holders</i> | | | |
| Non-Employee Directors Stock Option Plan | 215,812 | \$11.00 | 1,383,733 |
| Incentive Plan | — | \$ — | 4,029,318 |

Item 6. Selected Financial Data

The following table sets forth selected financial data for the years ended December 31, 2007, 2006 and 2005, and the period from January 20, 2004 (initial capitalization) through December 31, 2004. Certain information in the table has been derived from the Company's audited financial statements and notes thereto. This data should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Conditions and Results of Operations, and Item 15(1), the Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Annual Report on Form 10-K.

| (in thousands except per share and statistical data) | For the year ended December 31, 2007 | For the year ended December 31, 2006 | For the year ended December 31, 2005 | For the period January 20, 2004 (initial capitalization) through December 31, 2004 |
|--|---|---|---|--|
| Revenues: | | | | |
| Room revenue | \$236,278 | \$217,629 | \$ 91,610 | \$ 12,092 |
| Other revenue | 20,770 | 18,246 | 10,180 | 2,343 |
| Reimbursed expenses | 886 | — | — | — |
| Total revenue | 257,934 | 235,875 | 101,790 | 14,435 |
| Expenses: | | | | |
| Hotel operating expenses | 144,931 | 135,578 | 59,867 | 9,750 |
| Taxes, insurance and other | 13,605 | 13,491 | 5,340 | 663 |
| Reimbursed expenses | 886 | — | — | — |
| General and administrative | 5,637 | 5,355 | 3,526 | 1,210 |
| Depreciation | 27,694 | 25,529 | 11,366 | 1,881 |
| Interest and other expenses, net | 1,853 | 1,809 | (2,126) | (328) |
| Total expenses | 194,606 | 181,762 | 77,973 | 13,176 |
| Net income | \$ 63,328 | \$ 54,113 | \$ 23,817 | \$ 1,259 |
| Per Share | | | | |
| Earnings per common share | \$ 0.71 | \$ 0.61 | \$ 0.42 | \$ 0.10 |
| Distributions paid to common shareholders | \$ 0.88 | \$ 0.88 | \$ 0.88 | \$ 0.55 |
| Weighted-average common shares outstanding— basic and diluted | 89,644 | 88,869 | 56,451 | 12,300 |
| Balance Sheet Data (at end of period) | | | | |
| Cash and cash equivalents | \$ 33,261 | \$ 26,160 | \$ 35,948 | \$ 142,790 |
| Investment in hotels, net | \$820,468 | \$836,906 | \$ 790,170 | \$ 184,084 |
| Total assets | \$882,657 | \$886,839 | \$ 854,316 | \$ 332,259 |
| Notes payable-secured | \$ 51,679 | \$ 53,660 | \$ 76,855 | \$ 6,557 |
| Shareholders' equity | \$816,244 | \$826,046 | \$ 771,835 | \$ 325,099 |
| Net book value per share | \$ 9.04 | \$ 9.20 | \$ 9.44 | \$ 9.56 |
| Other Data | | | | |
| Cash flow from: | | | | |
| Operating activities | \$ 89,848 | \$ 81,363 | \$ 28,907 | \$ 2,904 |
| Investing activities | \$(15,627) | \$(61,766) | \$(585,507) | \$(183,840) |
| Financing activities | \$(67,120) | \$(29,385) | \$ 449,758 | \$ 323,702 |
| Number of hotels owned at end of period | 67 | 67 | 62 | 11 |
| Average Daily Rate (ADR) (b) | \$ 113 | \$ 105 | \$ 101 | \$ 105 |
| Occupancy | 73.9% | 74.5% | 71.1% | 59.8% |
| Revenue Per Available Room (RevPAR) (c) | \$ 84 | \$ 78 | \$ 72 | \$ 63 |
| Funds From Operations Calculation | | | | |
| Net income | \$ 63,328 | \$ 54,113 | \$ 23,817 | \$ 1,259 |
| Depreciation of real estate owned | 26,782 | 24,681 | 11,366 | 1,881 |
| Funds from operations (a) | \$ 90,110 | \$ 78,794 | \$ 35,183 | \$ 3,140 |

- (a) Funds from operations (FFO) is defined as net income (computed in accordance with generally accepted accounting principles—GAAP) excluding gains and losses from sales of depreciable property, plus depreciation and amortization of real estate. The Company considers FFO in evaluating property acquisitions and its operating performance and believes that FFO should be considered along with, but not as an alternative to, net income and cash flows as a measure of the Company's activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs.
- (b) Total room revenue divided by number of rooms sold.
- (c) ADR multiplied by occupancy percentage.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the ability of the Company to implement its acquisition strategy and operating strategy; the Company's ability to manage planned growth; changes in economic cycles and competition within the hotel industry. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore there can be no assurance that such statements included in this Annual Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the results or conditions described in such statements or the objectives and plans of the Company will be achieved. In addition, the Company's qualification as a real estate investment trust involves the application of highly technical and complex provisions of the Internal Revenue Code. Readers should carefully review the Company's financial statements and the notes thereto, as well as the risk factors described in the Company's filings with the Securities and Exchange Commission and Item 1A.

General

The Company was formed and initially capitalized on January 20, 2004, with its first investor closing on April 23, 2004. The Company owns 67 hotels within different markets in the United States. The Company is treated as a Real Estate Investment Trust ("REIT") for federal income tax purposes. The Company's first hotel was acquired on May 28, 2004, with 11 total hotels purchased in 2004, an additional 51 hotels purchased throughout 2005, and an additional 5 hotels purchased throughout 2006. Accordingly, the results of operations include only the results of operations of the hotels for the period owned. Although hotel performance can be influenced by many factors including local competition, local and general economic conditions in the United States and the performance of individual managers assigned to each hotel, performance of the hotels, in general, has met the Company's expectations for the period owned. In evaluating financial condition and operating performance, the most important matters on which the Company focuses are revenue measurements, such as average occupancy, average daily rate ("ADR") and revenue per available room ("RevPAR"), and expenses, such as hotel operating expenses, general and administrative and other expenses described below. The following is a summary of results.

| <u>(in thousands except statistical data)</u> | <u>Year ended December 31, 2007</u> | <u>Percent of Hotel Revenue</u> | <u>Year ended December 31, 2006</u> | <u>Percent of Hotel Revenue</u> | <u>Percent Change</u> |
|---|---|---|---|---|---------------------------|
| Total hotel revenue | \$257,048 | 100% | \$235,875 | 100% | 9% |
| Hotel operating expenses | 144,931 | 56% | 135,578 | 57% | 7% |
| Taxes, insurance and other expense | 13,605 | 5% | 13,491 | 6% | 1% |
| General and administrative expense | 5,637 | 2% | 5,355 | 2% | 5% |
| Depreciation | 27,694 | | 25,529 | | 8% |
| Interest income | 1,289 | | 1,220 | | 6% |
| Interest expense | 3,142 | | 3,029 | | 4% |
| Number of Hotels | 67 | | 67 | | — |
| ADR | \$ 113 | | \$ 105 | | 8% |
| Occupancy | 73.9% | | 74.5% | | -1% |
| RevPAR | \$ 84 | | \$ 78 | | 8% |

Hotels Owned

As of December 31, 2007, the Company owned 67 hotels, with a total of 7,750 rooms. The following table summarizes the location, brand, manager, date acquired, number of rooms and gross purchase price for each hotel. All dollar amounts are in thousands.

| City | State | Brand | Manager | Date Acquired | Rooms | Gross Purchase Price |
|----------------|-------------|----------------------|--------------|---------------|-------|----------------------|
| Birmingham | Alabama | Fairfield Inn | LBA | 8/25/05 | 63 | \$ 2,176 |
| Dothan | Alabama | Courtyard | LBA | 8/11/05 | 78 | 8,016 |
| Dothan | Alabama | Hampton Inn & Suites | LBA | 6/24/05 | 85 | 8,673 |
| Huntsville | Alabama | Fairfield Inn | LBA | 9/30/05 | 79 | 4,954 |
| Huntsville | Alabama | Residence Inn | LBA | 6/24/05 | 78 | 8,288 |
| Montgomery | Alabama | SpringHill Suites | LBA | 9/30/05 | 79 | 6,825 |
| Tuscaloosa | Alabama | Courtyard | LBA | 8/25/05 | 78 | 7,551 |
| Tuscaloosa | Alabama | Fairfield Inn | LBA | 8/25/05 | 63 | 3,982 |
| Anchorage | Alaska | Hampton Inn | Stonebridge | 3/14/05 | 101 | 11,500 |
| Anchorage | Alaska | Hilton Garden Inn | Stonebridge | 10/12/04 | 125 | 18,900 |
| Anchorage | Alaska | Homewood Suites | Stonebridge | 10/12/04 | 122 | 13,200 |
| Phoenix | Arizona | Hampton Inn | Stonebridge | 10/12/04 | 99 | 6,700 |
| Tempe | Arizona | SpringHill Suites | Western | 6/30/05 | 121 | 8,060 |
| Tempe | Arizona | TownePlace Suites | Western | 6/30/05 | 119 | 8,128 |
| Arcadia | California | Hilton Garden Inn | Stonebridge | 10/12/04 | 124 | 12,000 |
| Arcadia | California | SpringHill Suites | Stonebridge | 10/12/04 | 86 | 8,100 |
| Bakersfield | California | Hilton Garden Inn | Hilton | 3/18/05 | 120 | 11,500 |
| Folsom | California | Hilton Garden Inn | Inn Ventures | 11/30/05 | 100 | 18,028 |
| Foothill Ranch | California | Hampton Inn | Stonebridge | 4/21/05 | 84 | 7,400 |
| Lake Forest | California | Hilton Garden Inn | Stonebridge | 10/12/04 | 103 | 11,400 |
| Milpitas | California | Hilton Garden Inn | Inn Ventures | 11/30/05 | 161 | 18,600 |
| Roseville | California | Hilton Garden Inn | Inn Ventures | 11/30/05 | 131 | 20,759 |
| San Francisco | California | Hilton Garden Inn | Inn Ventures | 1/30/06 | 169 | 12,266 |
| Boulder | Colorado | Marriott | WLS | 5/9/05 | 157 | 30,000 |
| Glendale | Colorado | Hampton Inn & Suites | Stonebridge | 10/12/04 | 133 | 14,700 |
| Lakewood | Colorado | Hampton Inn | Stonebridge | 10/12/04 | 170 | 10,600 |
| Farmington | Connecticut | Courtyard | WLS | 10/20/05 | 119 | 16,330 |
| Rocky Hill | Connecticut | Residence Inn | WLS | 8/1/05 | 96 | 12,070 |
| Wallingford | Connecticut | Homewood Suites | WLS | 7/8/05 | 104 | 12,780 |
| Clearwater | Florida | SpringHill Suites | LBA | 2/17/06 | 79 | 6,923 |
| Lake Mary | Florida | Courtyard | LBA | 3/18/05 | 86 | 6,000 |
| Lakeland | Florida | Residence Inn | LBA | 6/24/05 | 78 | 9,886 |
| Orange Park | Florida | Fairfield Inn | LBA | 11/8/05 | 83 | 7,221 |
| Panama City | Florida | Courtyard | LBA | 4/26/06 | 84 | 9,245 |
| Pensacola | Florida | Courtyard | LBA | 8/25/05 | 90 | 11,369 |
| Pensacola | Florida | Fairfield Inn | LBA | 8/25/05 | 63 | 4,858 |
| Pensacola | Florida | Hampton Inn & Suites | LBA | 7/21/05 | 85 | 9,279 |
| Tallahassee | Florida | Hilton Garden Inn | Hilton | 3/18/05 | 99 | 10,850 |
| Albany | Georgia | Courtyard | LBA | 6/24/05 | 84 | 8,597 |
| Columbus | Georgia | Residence Inn | LBA | 6/24/05 | 78 | 7,888 |
| Savannah | Georgia | SpringHill Suites | LBA | 9/30/05 | 79 | 5,407 |
| Valdosta | Georgia | Courtyard | LBA | 10/3/05 | 84 | 8,284 |
| Mt. Olive | New Jersey | Residence Inn | WLS | 9/15/05 | 123 | 12,070 |
| Somerset | New Jersey | Homewood Suites | WLS | 8/17/05 | 123 | 17,750 |

| City | State | Brand | Manager | Date Acquired | Rooms | Gross Purchase Price |
|------------------------|----------------|-------------------|--------------|---------------|--------------|----------------------|
| Saratoga Springs | New York | Hilton Garden Inn | WLS | 9/29/05 | 112 | 17,750 |
| Hillsboro | Oregon | Courtyard | Inn Ventures | 3/9/06 | 155 | 11,000 |
| Hillsboro | Oregon | Residence Inn | Inn Ventures | 3/9/06 | 122 | 15,500 |
| Hillsboro | Oregon | TownePlace Suites | Inn Ventures | 12/19/05 | 136 | 11,500 |
| Portland | Oregon | Residence Inn | Inn Ventures | 12/19/05 | 258 | 42,000 |
| Pittsburgh | Pennsylvania | Residence Inn | WLS | 9/2/05 | 156 | 11,000 |
| Myrtle Beach | South Carolina | Courtyard | Marriott | 6/8/04 | 135 | 9,200 |
| Nashville | Tennessee | Homewood Suites | Hilton | 5/24/05 | 121 | 8,103 |
| Arlington | Texas | SpringHill Suites | Western | 6/30/05 | 122 | 7,486 |
| Arlington | Texas | TownePlace Suites | Western | 6/30/05 | 95 | 7,148 |
| Dallas | Texas | SpringHill Suites | Western | 12/9/05 | 147 | 19,500 |
| Ft. Worth | Texas | Homewood Suites | Hilton | 5/24/05 | 137 | 9,097 |
| Ft. Worth | Texas | Residence Inn | Western | 5/6/05 | 149 | 17,000 |
| Ft. Worth | Texas | SpringHill Suites | Marriott | 5/28/04 | 145 | 13,340 |
| Laredo | Texas | Homewood Suites | Western | 11/30/05 | 106 | 10,500 |
| Laredo | Texas | Residence Inn | Western | 9/12/05 | 109 | 11,445 |
| Las Colinas | Texas | TownePlace Suites | Western | 6/30/05 | 136 | 7,178 |
| McAllen | Texas | Hilton Garden Inn | Western | 7/19/05 | 104 | 9,000 |
| Fredericksburg | Virginia | Hilton Garden Inn | Hilton | 12/20/05 | 148 | 16,600 |
| Kent | Washington | TownePlace Suites | Inn Ventures | 12/19/05 | 152 | 12,000 |
| Mukilteo | Washington | TownePlace Suites | Inn Ventures | 12/19/05 | 128 | 12,000 |
| Redmond | Washington | Marriott | Marriott | 7/7/04 | 262 | 64,000 |
| Renton | Washington | Hilton Garden Inn | Inn Ventures | 11/30/05 | 150 | 16,096 |
| Total | | | | | <u>7,750</u> | <u>\$827,566</u> |

With the exception of approximately \$54 million of assumed debt secured by 14 hotels, substantially all of the purchase price for the hotels was funded by proceeds from the Company's best-efforts offering of Units. No goodwill or intangible assets were recorded in connection with any of the acquisitions. The Company leased all of its hotels to wholly-owned taxable REIT subsidiaries (collectively, the "lessee") under master hotel lease agreements. The Company also used the proceeds of its offering to pay 2% of the gross purchase price for these hotels, which equals approximately \$16.6 million, as a commission to Apple Six Realty Group, Inc. ("ASRG"). ASRG is owned by the Company's Chairman, Chief Executive Officer and President, Glade M. Knight.

Management and Franchise Agreements

Each of the Company's 67 hotels are operated and managed, under separate management agreements, by affiliates of one of the following companies: Marriott, Stonebridge, Hilton, Western, LBA, WLS, or Inn Ventures. The agreements have remaining terms ranging from 3 to 27 years. Fees associated with the agreements generally include the payment of base management fees, incentive management fees, accounting fees, and other fees for centralized services which are allocated among all of the hotels that receive the benefit of such services. Base management fees are calculated as a percentage of gross revenues. Incentive management fees are calculated as a percentage of operating profit in excess of a priority return to the Company, as defined in the management agreements. The Company has the option to terminate the management agreements if specified performance thresholds are not satisfied. During the years ended December 31, 2007, 2006 and 2005 the Company incurred approximately \$9.9, \$8.7 and \$3.2 million in management fees.

Stonebridge, Western, LBA, WLS, and Inn Ventures are not affiliated with either Marriott or Hilton, and as a result, the hotels managed by these companies were required to obtain separate franchise agreements with each

respective franchisor. The Hilton franchise agreements generally provide for a term of 13 to 20 years. Fees associated with the Hilton agreements generally include the payment of royalty fees and program fees based on room revenues. The Marriott franchise agreements provide for an initial term of 15 to 20 years. Fees associated with the Marriott agreements include the payment of royalty fees, marketing fees, reservation fees and a communications support fee based on room revenues. During the years ended December 31, 2007, 2006 and 2005 the Company incurred approximately \$10.3, \$9.0 and \$4.0 million in franchise fees.

Results of Operations for Years 2007 and 2006

Revenues

The Company's principal source of revenue is hotel room revenue and other related revenue. Hotel operations are for the 67 hotels acquired through December 31, 2007 for their respective periods owned. For the years ended December 31, 2007 and 2006, the Company had total hotel revenue of \$257 and \$236 million, respectively. For the years ended December 31, 2007 and 2006, the hotels achieved average occupancy of 73.9% and 74.5%, average daily rate, or ADR of \$113 and \$105 and revenue per available room, or RevPAR of \$84 and \$78. ADR is calculated as room revenue divided by the number of rooms sold, and RevPAR is calculated as occupancy multiplied by ADR. These rates are consistent with industry and brand averages. The industry and the Company have seen RevPAR increases due to increases in demand exceeding increases in supply of hotel rooms in the markets where the Company's hotels are located. The Company continually works with the hotel managers to maximize rates and anticipates continued revenue growth in 2008, although at more modest rates.

Expenses

Expenses for the years ended December 31, 2007 and 2006 represented the expenses related to the 67 hotels acquired through December 31, 2007 for their respective periods owned.

For the years ended December 31, 2007 and 2006, hotel operating expenses totaled \$144.9 and \$135.6 million, or 56% of total hotel revenue in 2007 and 57% of total revenue in 2006. This percentage has decreased as revenues for newly opened properties have increased and ADR has increased.

Taxes, insurance, and other expenses for the years ended December 31, 2007 and 2006 were \$13.6 and \$13.5 million, or 5% of total hotel revenue in 2007 and 6% of total revenue in 2006, as these expenses remained stable on a growing revenue base. The Company expects insurance rates to decrease in 2008, while property taxes are expected to increase slightly.

General and administrative expense for the years ended December 31, 2007 and 2006 was \$5.6 and \$5.4 million, or 2% of total hotel revenue in 2007 and 2006. The principal components of general and administrative expense are advisory fees, legal fees, accounting fees and reporting expense.

Depreciation expense for the years ended December 31, 2007 and 2006 was \$27.7 and \$25.5 million. Depreciation expense represents the expense of the Company's 67 hotels and related personal property for their respective periods owned.

Interest expense for the years ended December 31, 2007 and 2006 was \$3.1 and \$3.0 million. Interest expense arose from debt assumed with 14 of the hotels acquired in 2005 and 2006.

For the years ended December 31, 2007 and 2006, the Company had interest income of \$1.3 and \$1.2 million. Interest income represents earnings on excess cash invested in short term money market instruments, pending investment in hotel properties or other capital investments.

Results of Operations for Years 2006 and 2005

Revenues

The Company's principal source of revenue is hotel room revenue and other related revenue. Hotel operations are for the 67 hotels acquired through December 31, 2006 for their respective periods owned. For the years ended December 31, 2006 and 2005, the Company had total hotel revenue of \$236 and \$102 million, respectively. For the years ended December 31, 2006 and 2005, the hotels achieved average occupancy of 74.5% and 71.1%, average daily rate, or ADR of \$105 and \$101 and revenue per available room, or RevPAR of \$78 and \$72. ADR is calculated as room revenue divided by the number of rooms sold, and RevPAR is calculated as occupancy multiplied by ADR. These rates are consistent with industry and brand averages. The industry and the Company have seen RevPAR increases due to increases in demand exceeding increases in supply of hotel rooms in the markets where the Company's hotels are located.

Expenses

Expenses for the years ended December 31, 2006 and 2005 represented the expenses related to the 67 hotels acquired through December 31, 2006 for their respective periods owned.

For the years ended December 31, 2006 and 2005, hotel operating expenses totaled \$135.6 and \$59.9 million, or 57% of total revenue in 2006 and 59% of total revenue in 2005. This percentage has decreased as revenues for newly opened properties have increased and ADR has increased.

Taxes, insurance, and other expenses for the years ended December 31, 2006 and 2005 were \$13.5 and \$5.3 million, or 6% of total revenue in 2006 and 5% of total revenue in 2005. The increase as a percentage of revenue was driven by higher property insurance rates.

General and administrative expense for the years ended December 31, 2006 and 2005 was \$5.4 and \$3.5 million, or 2% of total revenue in 2006 and 3% of total revenue in 2005. The decrease as a percentage of revenue resulted from the growth of the Company's asset base. The principal components of general and administrative expense are advisory fees, legal fees, accounting fees and reporting expense.

Depreciation expense for the years ended December 31, 2006 and 2005 was \$25.5 and \$11.4 million. Depreciation expense represents the expense of the Company's 67 hotels and related personal property for their respective periods owned.

Interest expense for the years ended December 31, 2006 and 2005 was \$3.0 and \$1.8 million. Interest expense arose from debt assumed with 14 of the hotels acquired in 2005 and 2006 and short term financing to bridge the purchase of properties and the raising of capital.

For the years ended December 31, 2006 and 2005, the Company had interest income of \$1.2 and \$3.9 million. Interest income represents earnings on excess cash invested in short term money market instruments, pending investment in hotel properties.

Related Party Transactions

The Company has significant transactions with related parties. These transactions cannot be construed to be arms length, and the results of the Company's operations may be different if these transactions were conducted with non-related parties.

The Company has a contract with ASRG, a related party, to provide brokerage services for the acquisition and disposition of the Company's real estate assets. In accordance with the contract, ASRG is paid a fee of 2% of the gross purchase price of any acquisitions or gross sale price of any dispositions of real estate investments,

subject to certain conditions. As of December 31, 2007, total payments to ASRG for services under the terms of this contract were \$16.6 million, which was capitalized as a part of the purchase price of the hotels. There were no fees incurred during 2007 under this contract.

The Company is party to an advisory agreement with Apple Six Advisors, Inc. ("ASA"), pursuant to which ASA provides management services to the Company. An annual fee ranging from .1% to .25% of total equity proceeds received by the Company, in addition to certain reimbursable expenses, are payable for these services. Until May 2007, ASA utilized Apple Hospitality Two, Inc. to provide these services. From May to October 2007, ASA utilized Apple Fund Management, LLC, a subsidiary of Apple Hospitality Five, Inc. ("AHF") to provide these services. In October 2007, AHF merged with an unrelated third party and the Company acquired all of AHF's interest in Apple Fund Management, LLC at no incremental cost to the Company. The advisory fees incurred under the agreement with ASA in 2007, 2006 and 2005 were approximately \$2.5, \$2.3 and \$0.7 million, respectively.

Effective October 2007, through its wholly-owned subsidiary, Apple Fund Management, LLC, the Company provides support services to ASRG, ASA, Apple Seven Advisors, Inc. ("A7A"), Apple Suites Realty Group, Inc. ("Suites"), Apple REIT Seven, Inc., Apple Eight Advisors, Inc. ("A8A"), Apple REIT Eight, Inc. and Apple REIT Nine, Inc. A7A provides day to day advisory and administrative functions for Apple REIT Seven, Inc. A8A provides day to day advisory and administrative functions for Apple REIT Eight, Inc. Suites provides real estate brokerage services to Apple REIT Seven, Inc. and Apple REIT Eight, Inc. Each of these companies has agreed to reimburse the Company for its costs in providing these services. For the year ended December 31, 2007, the Company received reimbursement of its costs totaling approximately \$0.9 million. ASRG, ASA, A7A, Suites, A8A and Apple REIT Nine, Inc. are 100% owned by Glade Knight, the Company's Chairman and Chief Executive Officer.

Including ASRG, Suites, ASA, A7A, A8A and Apple REIT Nine, Inc. discussed above, Mr. Knight is also Chairman and Chief Executive Officer of Apple REIT Seven, Inc. (a diversified REIT) and Apple REIT Eight, Inc. (a newly formed company that intends to qualify as a diversified REIT). Mr. Knight was also Chairman and Chief Executive Officer of Apple Hospitality Two, Inc. (a hospitality REIT) until May 2007 and Apple Hospitality Five, Inc. (a hospitality REIT) until October 2007. Members of the Company's Board of Directors are also on the boards of Apple REIT Seven, Inc. and Apple REIT Eight, Inc. Until May 2007, members of the Company's Board of Directors were also on the board of Apple Hospitality Two, Inc. and, until October 2007, were on the board of Apple Hospitality Five, Inc.

The Company has issued 240,000 Series B convertible preferred shares to Mr. Knight in exchange for the payment by him of \$0.10 per Series B convertible preferred share, or an aggregate of \$24,000. The Series B convertible preferred shares are convertible into common shares pursuant to the formula and on the terms and conditions set forth below.

There are no dividends payable on the Series B convertible preferred shares. Holders of more than two-thirds of the Series B convertible preferred shares must approve any proposed amendment to the articles of incorporation that would adversely affect the Series B convertible preferred shares.

Upon the Company's liquidation, the holder of the Series B convertible preferred shares is entitled to a priority liquidation payment before any distribution of liquidation proceeds to the holders of the common shares. However, the priority liquidation payment of the holder of the Series B convertible preferred shares is junior to the holders of the Series A preferred shares distribution rights. The holder of a Series B convertible preferred share is entitled to a liquidation payment of \$11 per number of common shares each Series B convertible preferred share would be convertible into according to the formula described below. In the event that the liquidation of the Company's assets results in proceeds that exceed the distribution rights of the Series A preferred shares and the Series B convertible preferred shares, the remaining proceeds will be distributed between the common shares and the Series B convertible preferred shares, on an as converted basis.

Each holder of outstanding Series B convertible preferred shares shall have the right to convert any of such shares into common shares of the Company upon and for 180 days following the occurrence of any of the following events:

- (1) substantially all of the Company's assets, stock or business is sold or transferred through exchange, merger, consolidation, lease, share exchange, sale or otherwise, other than a sale of assets in liquidation, dissolution or winding up of the Company;
- (2) the termination or expiration without renewal of the advisory agreement with ASA, or if the Company ceases to use ASRG to provide property acquisition and disposition services; or
- (3) the Company's common shares are listed on any securities exchange or quotation system or in any established market.

Upon the occurrence of any conversion event, each Series B convertible preferred share may be converted into 24.17104 common shares. In the event that the Company raises additional gross proceeds in a subsequent public offering, each Series B convertible preferred share may be converted into an additional number of common shares based on the additional gross proceeds raised through the date of conversion in a subsequent public offering according to the following formula: $(X/50 \text{ million}) \times 1.20568$, where X is the additional gross proceeds rounded down to the nearest 50 million.

No additional consideration is due upon the conversion of the Series B convertible preferred shares. The conversion into common shares of the Series B convertible preferred shares will result in dilution of the shareholders' interests.

Expense related to issuance of 240,000 Series B convertible preferred shares to Mr. Knight will be recognized at such time when the number of common shares to be issued for conversion of the Series B shares can be reasonably estimated and the event triggering the conversion of the Series B shares to common shares occurs. The expense will be measured as the difference between the fair value of the common stock for which the Series B shares can be converted and the amounts paid for the Series B shares. Expense if a conversion event had occurred at December 31, 2007 could range from \$0 to \$63.8 million (assumes \$11 per Unit fair market value), which represents approximately 5.8 million shares of common stock.

Liquidity and Capital Resources

The following is a summary of the Company's significant contractual obligations as of December 31, 2007:

| Commercial Commitments (000's) | Total | Amount of Commitment expiring per period | | | |
|---|-----------------|--|-----------------|-----------------|-----------------|
| | | Less than 1 year | 2-3 Years | 4-5 Years | Over 5 Years |
| Debt (including interest of \$10.7 million) | \$61,409 | \$20,502 | \$10,385 | \$11,181 | \$19,341 |
| Property Purchase Commitments | 15,217 | 15,217 | — | — | — |
| Ground Lease Commitments | 12,910 | 471 | 954 | 974 | 10,511 |
| Total Commercial Commitments | <u>\$89,536</u> | <u>\$36,190</u> | <u>\$11,339</u> | <u>\$12,155</u> | <u>\$29,852</u> |

Capital Requirements and Resources

Operating cash flow from the properties owned and cash on hand (\$33.3 million at December 31, 2007) are the Company's principal source of liquidity. In addition, the Company may borrow funds, subject to limitations set forth in its bylaws.

The Company anticipates that cash flow, cash on hand and an anticipated line of credit of approximately \$20 million will be adequate to cover substantially all of its operating expenses and to permit the Company to meet substantially all of its anticipated liquidity requirements, including distribution requirements and property acquisition.

To maintain its REIT status the Company is required to distribute at least 90% of its ordinary income. Distributions in 2007 totaled \$78.8 million and were paid monthly at a rate of \$0.073 per common share and included a return of capital. For the same period the Company's cash generated from operations was \$89.8 million. The Company intends to continue paying dividends on a monthly basis. In February 2008, the Company increased the annual rate of its dividend from 8% to 8.2%. Since there can be no assurance of the ability of the Company's properties to provide income at this level, there can be no assurance as to the classification or duration of distributions at the current rate.

The Company has on-going capital commitments to fund its capital improvements. The Company is required, under all of the hotel management agreements, to make available, for the repair, replacement, refurbishing of furniture, fixtures, and equipment, an amount of 3% to 5% of gross revenues provided that such amount may be used for the Company's capital expenditures with respect to the hotels. During the fourth quarter of 2007, the Company began significant renovations of seven hotels which are expected to be completed in the first quarter of 2008. In 2008 the Company expects to complete approximately 11 additional renovations. Total capital expenditures in 2007 were approximately \$10.3 million and are anticipated to increase to approximately \$25 million due to the renovations in 2008.

In February 2006, the Company instituted a Dividend Reinvestment Plan for its shareholders. The plan provides a convenient and cost effective way to increase shareholder investment in the Company by reinvesting dividends to purchase additional Units of the Company. The uses of the proceeds from this plan may include purchasing Units under the Company's Unit Redemption Program, enhancing properties, satisfying financing obligations and other expenses, increasing working capital, funding various corporate operations, and acquiring hotels. As of December 31, 2007, approximately 5.0 million Units, representing \$55.3 million in proceeds to the Company, have been issued under the plan, including 3.0 million Units representing \$33.3 million issued in 2007 and 2.0 million Units representing \$22.0 million issued in 2006.

In July 2005, the Company instituted a Unit Redemption Program to provide limited interim liquidity to its shareholders who have held their Units for at least one year. Shareholders may request redemption of Units for a purchase price equal to the lesser of: (1) the purchase price per Unit that the shareholder actually paid for the Unit; or (2) \$11.00 per Unit. The Company reserves the right to change the purchase price of redemptions, reject any request for redemption, or otherwise amend the terms of, suspend, or terminate the Unit Redemption Program. As of December 31, 2007, the Company has redeemed 5.9 million Units in the amount of \$64.4 million under the program, including 2.5 million Units for \$27.7 million redeemed in 2007 and 2.9 million Units in the amount of \$31.9 million redeemed in 2006.

The Company has entered into a contract for the purchase of an additional hotel for a purchase price of approximately \$15.2 million. The Company expects to acquire the hotel in the first quarter of 2008 and to pay the purchase price from cash on hand.

Subsequent Events

In January 2008, the Company declared and paid \$6.6 million or \$.073 per common share, in a distribution to its common shareholders, of which \$2.9 million or 260,606 Units were reinvested under the Company's Dividend Reinvestment Plan.

On January 22, 2008, the Company redeemed 394,682 Units in the amount of \$4.3 million under its Unit Redemption Program.

In February 2008, the Company declared and paid \$6.8 million or \$.075 per common share, in a distribution to its common shareholders, of which \$2.9 million or 267,387 Units were reinvested under the Company's Dividend Reinvestment Plan.

Impact of Inflation

Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. Competitive pressures may, however, limit the operators' ability to raise room rates. Currently the Company is not experiencing any material impact from inflation.

Seasonality

The hotel industry historically has been seasonal in nature. Seasonal variations in occupancy at the Company's hotels may cause quarterly fluctuations in its revenues. To the extent that cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenue, the Company expects to utilize cash on hand to make distributions.

Critical Accounting Policies

The following contains a discussion of what the Company believes to be critical accounting policies. These items should be read to gain a further understanding of the principles used to prepare the Company's financial statements. These principles include application of judgment; therefore, changes in judgments may have a significant impact on the Company's reported results of operations and financial condition.

Capitalization Policy

The Company considers expenditures to be capital in nature based on the following criteria: (1) for a single asset, the cost must be at least \$500, including all normal and necessary costs to place the asset in service, and the useful life must be at least one year; (2) for group purchases of 10 or more identical assets, the unit cost for each asset must be at least \$50, including all normal and necessary costs to place the asset in service, and the useful life must be at least one year; and (3) for major repairs to buildings, the repair must be at least \$2,500 and the useful life of the asset must be substantially extended.

Impairment Losses Policy

The Company records impairment losses on hotel properties used in operations if indicators of impairment are present, and the sum of the undiscounted cash flows estimated to be generated by the respective properties are less than the properties' carrying amounts. Impairment losses are measured as the difference between the asset's fair value less cost to sell, and its carrying value. No impairment losses have been recorded to date.

Recently Adopted Accounting Pronouncements

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109. This interpretation requires that income tax positions recognized in an entity's tax returns have a more-likely-than-not chance of being sustained prior to recording the related tax benefit in the financial statements. Tax benefits would be derecognized if information became available which indicated that it was more-likely-than-not that the position would not be sustained. The adoption of this interpretation has not had a material impact on the Company's results of operations or financial position.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued FASB Statement No. 141R, Business Combinations. This statement revises Statement 141, Business Combinations, by requiring an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This method replaces the cost-allocation process, which required

the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. A significant change included in Statement 141R is the requirement that costs incurred to effect an acquisition, as well as restructuring costs resulting from an acquisition, must be accounted for separately as expenses. These costs were previously capitalized as part of the cost of the acquisition. Another significant change is the requirement that pre-acquisition contingencies be recognized at fair value as of the date of acquisition if it is more likely than not that they will meet the definition of an asset or liability. Statement 141R will be adopted by the Company in the first quarter of 2009. The adoption of the statement is not anticipated to have a material impact on the Company's results of operations or financial position, as the Company does not anticipate the acquisition of any significant businesses after the effective date.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. Statement 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this Statement does not require any new fair value measurements. This guidance was issued to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. Statement 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of the statement is not anticipated to have a material impact on the Company's results of operations or financial position.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. Statement 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the guidance is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Statement 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company does not anticipate making the election to measure financial assets at fair value and therefore, adoption of this standard will not have an impact on the financial statements.

In December 2007, the FASB issued FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51. Statement 160 requires that ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. The Statement also requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. Statement 160 will be adopted by the Company in the first quarter of 2009. The adoption of the statement is not anticipated to have a material impact on the Company's results of operations or financial position.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The Company does not engage in transactions in derivative financial instruments or derivative commodity instruments. As of December 31, 2007, the Company's financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk. The Company will be exposed to changes in short term money market rates as it invests its cash. Based on the Company's cash invested at December 31, 2007, of \$33.3 million, every 100 basis points change in interest rates will impact the Company's net income by \$333,000, all other factors remaining the same.

The Company has assumed fixed interest rate notes payable to lenders under permanent financing arrangements. The following table summarizes the annual maturities and average interest rates.

| (000's) | 2008 | 2009 | 2010 | 2011 | 2012 | Thereafter | Total | Fair Market Value |
|-----------------------------|----------|---------|-------|---------|-------|------------|----------|-------------------------|
| Maturities | \$17,555 | \$5,431 | \$850 | \$7,546 | \$756 | \$18,548 | \$50,686 | \$51,271 |
| Average Interest Rate | 7.2% | 7.2% | 7.1% | 6.9% | 6.7% | 6.7% | | |

Item 8. Financial Statements and Supplementary Data

Report of Management on Internal Control Over Financial Reporting

March 3, 2008
To the Shareholders
Apple REIT Six, Inc.

Management of Apple REIT Six, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting is supported by written policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company's transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and the receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company's annual consolidated financial statements, management has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this assessment, management has concluded that as of December 31, 2007, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this report, has issued an attestation report on the Company's internal control over financial reporting, a copy of which appears on the next page of this annual report.

/s/ GLADE M. KNIGHT
Glade M. Knight
Chairman and Chief Executive Officer

/s/ BRYAN PEERY
Bryan Peery
Chief Financial Officer
(Principal Accounting Officer)

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Apple REIT Six, Inc.

We have audited Apple REIT Six Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Apple REIT Six Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Apple REIT Six, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2007 consolidated financial statements of Apple REIT Six, Inc. and our report dated March 3, 2008 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Richmond, Virginia
March 3, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Apple REIT Six, Inc.

We have audited the accompanying consolidated balance sheets of Apple REIT Six, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the index at Item 15(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Apple REIT Six, Inc. at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Apple REIT Six, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2008 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Richmond, Virginia
March 3, 2008

Apple REIT Six, Inc.
Consolidated Balance Sheets
(in thousands, except share data)

| | December 31, 2007 | December 31, 2006 |
|--|----------------------|----------------------|
| ASSETS | | |
| Investment in real estate, net of accumulated depreciation of \$64,692 and \$37,928, respectively | \$820,468 | \$836,906 |
| Cash and cash equivalents | 33,261 | 26,160 |
| Restricted cash-furniture, fixtures and other escrows | 3,928 | 3,350 |
| Due from third party manager, net | 8,855 | 8,948 |
| Other assets, net | 16,145 | 11,475 |
| TOTAL ASSETS | <u>\$882,657</u> | <u>\$886,839</u> |
| LIABILITIES | | |
| Notes payable | \$ 51,679 | \$ 53,660 |
| Other liabilities | 14,734 | 7,133 |
| TOTAL LIABILITIES | 66,413 | 60,793 |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock, authorized 15,000,000 shares; none issued and outstanding | — | — |
| Series A preferred stock, no par value, authorized 200,000,000 shares; issued and outstanding 90,280,401 and 89,773,345 shares, respectively | — | — |
| Series B convertible preferred stock, no par value, authorized 240,000 shares; issued and outstanding 240,000 and 240,000 shares, respectively | 24 | 24 |
| Common stock, no par value, authorized 200,000,000 shares; issued and outstanding 90,280,401 and 89,773,345 shares, respectively | 888,878 | 883,174 |
| Distributions greater than net income | (72,658) | (57,152) |
| TOTAL SHAREHOLDERS' EQUITY | <u>816,244</u> | <u>826,046</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>\$882,657</u> | <u>\$886,839</u> |

See notes to consolidated financial statements.

Apple REIT Six, Inc.
Consolidated Statements of Operations
(in thousands, except per share data)

| | Year ended December 31, 2007 | Year ended December 31, 2006 | Year ended December 31, 2005 |
|---|---------------------------------|---------------------------------|---------------------------------|
| Revenues: | | | |
| Room revenue | \$236,278 | \$217,629 | \$ 91,610 |
| Other revenue | 20,770 | 18,246 | 10,180 |
| Reimbursed expenses | 886 | — | — |
| Total revenue | 257,934 | 235,875 | 101,790 |
| Expenses: | | | |
| Operating expense | 63,748 | 61,758 | 27,755 |
| Hotel administrative expense | 20,298 | 18,448 | 9,822 |
| Sales and marketing | 19,692 | 18,297 | 7,074 |
| Utilities | 9,765 | 9,592 | 4,159 |
| Repair and maintenance | 11,237 | 9,749 | 3,900 |
| Franchise fees | 10,256 | 9,004 | 3,965 |
| Management fees | 9,935 | 8,730 | 3,192 |
| Taxes, insurance and other | 13,605 | 13,491 | 5,340 |
| Reimbursed expenses | 886 | — | — |
| General and administrative | 5,637 | 5,355 | 3,526 |
| Depreciation expense | 27,694 | 25,529 | 11,366 |
| Total expenses | 192,753 | 179,953 | 80,099 |
| Operating income | 65,181 | 55,922 | 21,691 |
| Interest income | 1,289 | 1,220 | 3,909 |
| Interest expense | (3,142) | (3,029) | (1,783) |
| Net income | <u>\$ 63,328</u> | <u>\$ 54,113</u> | <u>\$ 23,817</u> |
| Basic and diluted net income per common share | <u>\$ 0.71</u> | <u>\$ 0.61</u> | <u>\$ 0.42</u> |
| Weighted average common shares outstanding—basic and diluted | 89,644 | 88,869 | 56,451 |
| Distributions declared per common share | <u>\$ 0.88</u> | <u>\$ 0.88</u> | <u>\$ 0.88</u> |

See notes to consolidated financial statements.

Apple REIT Six, Inc.
Consolidated Statements of Shareholders' Equity
(in thousands except per share data)

| | Common Stock | | Class B Convertible Preferred Stock | | Distributions Greater than Net income | Total Shareholders' Equity |
|--|------------------|------------------|-------------------------------------|--------------|---------------------------------------|----------------------------|
| | Number of Shares | Amount | Number of Shares | Amount | | |
| Balance at December 31, 2004 | 34,020 | \$333,295 | 240 | \$ 24 | \$ (8,220) | \$325,099 |
| Net proceeds from the sale of common shares | 48,193 | 476,545 | — | — | — | 476,545 |
| Common shares redeemed | (438) | (4,761) | — | — | — | (4,761) |
| Net income | — | — | — | — | 23,817 | 23,817 |
| Cash distributions declared and paid to shareholders (\$.88 per share) | — | — | — | — | (48,865) | (48,865) |
| Balance at December 31, 2005 | 81,775 | 805,079 | 240 | 24 | (33,268) | 771,835 |
| Net proceeds from the sale of common shares | 10,914 | 109,957 | — | — | — | 109,957 |
| Stock options granted | — | 69 | — | — | — | 69 |
| Common shares redeemed | (2,916) | (31,931) | — | — | — | (31,931) |
| Net income | — | — | — | — | 54,113 | 54,113 |
| Cash distributions declared and paid to shareholders (\$.88 per share) | — | — | — | — | (77,997) | (77,997) |
| Balance at December 31, 2006 | 89,773 | 883,174 | 240 | 24 | (57,152) | 826,046 |
| Net proceeds from the sale of common shares | 3,028 | 33,309 | — | — | — | 33,309 |
| Stock options granted | — | 68 | — | — | — | 68 |
| Common shares redeemed | (2,521) | (27,673) | — | — | — | (27,673) |
| Net income | — | — | — | — | 63,328 | 63,328 |
| Cash distributions declared and paid to shareholders (\$.88 per share) | — | — | — | — | (78,834) | (78,834) |
| Balance at December 31, 2007 | <u>90,280</u> | <u>\$888,878</u> | <u>240</u> | <u>\$ 24</u> | <u>\$(72,658)</u> | <u>\$816,244</u> |

See notes to consolidated financial statements.

Apple REIT Six, Inc.
Consolidated Statements of Cash Flows
(in thousands)

| | Year ended December 31, 2007 | Year ended December 31, 2006 | Year ended December 31, 2005 |
|---|---------------------------------|---------------------------------|---------------------------------|
| Cash flow provided by operating activities: | | | |
| Net income | \$ 63,328 | \$ 54,113 | \$ 23,817 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | |
| Depreciation | 27,694 | 25,529 | 11,366 |
| Amortization of deferred financing costs and fair value adjustments | (407) | (418) | (106) |
| Stock option expense | 68 | 69 | — |
| Changes in operating assets and liabilities, net of amounts acquired/assumed: | | | |
| Due from third party manager | 93 | (1,132) | (6,076) |
| Other assets | (341) | 142 | (527) |
| Accounts payable and accrued expenses | (587) | 3,060 | 433 |
| Net cash provided by operating activities | 89,848 | 81,363 | 28,907 |
| Cash flow from investing activities: | | | |
| Cash paid in acquisition of hotels | — | (37,180) | (565,082) |
| Cash paid for potential acquisition of hotels | — | — | (14,093) |
| Acquisition of other assets | (7,647) | (9,181) | (1,514) |
| Capital improvements | (7,988) | (15,714) | (4,952) |
| Net (increase) decrease in cash restricted for property improvements | (842) | 309 | 134 |
| Other investing activities, net | 850 | — | — |
| Net cash used in investing activities | (15,627) | (61,766) | (585,507) |
| Cash flow from financing activities: | | | |
| Net proceeds from (payments on) unsecured note payable | — | (28,000) | 28,000 |
| Payment of financing costs | — | (101) | (582) |
| Repayment of secured notes payable | (1,445) | (1,313) | (579) |
| Minority interest contributions | 7,523 | — | — |
| Net proceeds from issuance of common stock | 33,309 | 109,957 | 476,545 |
| Redemptions of common stock | (27,673) | (31,931) | (4,761) |
| Cash distributions paid to shareholders | (78,834) | (77,997) | (48,865) |
| Net cash provided by (used in) financing activities | (67,120) | (29,385) | 449,758 |
| Increase (decrease) in cash and cash equivalents | 7,101 | (9,788) | (106,842) |
| Cash and cash equivalents, beginning of period | 26,160 | 35,948 | 142,790 |
| Cash and cash equivalents, end of period | <u>\$ 33,261</u> | <u>\$ 26,160</u> | <u>\$ 35,948</u> |
| Supplemental information: | | | |
| Interest paid | \$ 3,774 | \$ 4,037 | \$ 1,640 |
| Non-cash transactions: | | | |
| Notes payable assumed in acquisitions | \$ — | \$ 6,663 | \$ 43,122 |

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1

General Information and Summary of Significant Accounting Policies

Organization

Apple REIT Six, Inc. (the "Company") is a Virginia corporation formed to invest in real estate in select metropolitan areas in the United States. Initial capitalization occurred on January 20, 2004 and operations began on May 28, 2004 when the Company acquired its first hotel. The Company has no foreign operations or assets and its operations include only one segment. The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

The Company has elected to be treated as a real estate investment trust ("REIT") for federal income tax purposes. The REIT Modernization Act, effective January 1, 2001, permits real estate investment trusts to establish taxable businesses to conduct certain previously disallowed business activities. The Company has formed wholly-owned taxable REIT subsidiaries (collectively, the "Lessee"), which lease all of the Company's hotels.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. The fair market value of cash and cash equivalents approximates their carrying value. All cash and cash equivalents are currently held at one institution, Wachovia Bank, N.A, and the balances may at times exceed federal depository insurance limits.

Investment in Hotels and Related Depreciation

The hotels are stated at cost, net of depreciation, and include real estate brokerage commissions paid to Apple Six Realty Group, Inc. ("ASRG"), a related party owned by Glade M. Knight, Chairman, CEO and President of the Company. Repair and maintenance costs are expensed as incurred while significant improvements, renovations, and replacements are capitalized. Depreciation is computed using the straight-line method over estimated useful lives of the assets, which are 39 years for buildings, ten years for major improvements and three to seven years for furniture and equipment.

The Company considers expenditures to be capital in nature based on the following criteria: (1) for a single asset, the cost must be at least \$500, including all normal and necessary costs to place the asset in service, and the useful life must be at least one year; (2) for group purchases of 10 or more identical assets, the unit cost for each asset must be at least \$50, including all normal and necessary costs to place the asset in service, and the useful life must be at least one year; and (3) for major repairs to buildings, the repair must be at least \$2,500 and the useful life of the asset must be substantially extended.

The Company records impairment losses on hotel properties used in operations if indicators of impairment are present, and the undiscounted cash flows estimated to be generated by the respective properties are less than their carrying amount. Impairment losses are measured as the difference between the asset's fair value less cost to sell, and its carrying value. No impairment losses have been recorded to date.

The purchase price of real estate properties acquired is allocated to the various components, such as land, buildings and improvements, intangible assets and in-place leases as appropriate, in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations". The purchase price is allocated based on the fair value of each component at the time of acquisition. Generally, the Company does not acquire real estate

Notes to Consolidated Financial Statements—(Continued)

assets that have in-place leases as lease terms for hotel properties are very short term in nature. There has been no allocation of purchase price to intangible assets such as management contracts and franchise agreements as such contracts are generally at current market rates and any other value attributable to these contracts is not considered material.

Revenue Recognition

Revenue is recognized as earned, which is generally defined as the date upon which a guest occupies a room or utilizes the hotel's services.

Offering Costs

From the Company's initial capitalization on January 20, 2004 through December 31, 2007, the Company incurred costs of approximately \$102 million related to its best-efforts offering of Units. Each Unit is equal to one common share, no par value, and one Series A preferred share of the Company. On March 3, 2006, the Company concluded its best-efforts offering, and had closed on the sale of 91,125,541 Units with total proceeds net of commissions and offering costs of approximately \$898 million.

Comprehensive Income

The Company recorded no comprehensive income other than net income for the years ended December 31, 2007, 2006 and 2005.

Earnings Per Common Share

Basic earnings per common share is computed based upon the weighted average number of shares outstanding during the year. Diluted earnings per common share is calculated after giving effect to all potential common shares that were dilutive and outstanding for the year. There were no shares with a dilutive effect for the years ended December 31, 2007, 2006 and 2005. As a result, basic and dilutive outstanding shares were the same. Series B convertible preferred shares are not included in earnings per common share calculations until such time the Series B convertible preferred shares are converted to common shares (see Note 5).

Federal Income Taxes

The Company is operated as, and has elected to be taxed as, a REIT under Sections 856 to 860 of the Internal Revenue Code. Earnings and profits, which will determine the taxability of distributions to shareholders, will differ from income reported for financial reporting purposes primarily due to the differences for federal income tax purposes in the estimated useful lives used to compute depreciation. The characterization of 2007 distributions of \$0.88 per common share for tax purposes was 90% ordinary income and 10% return of capital, 2006 distributions of \$0.88 per common share for tax purposes was 82% ordinary income and 18% return of capital, and 2005 distributions of \$0.88 per common share for tax purposes was 63% ordinary income and 37% return of capital (unaudited).

The Lessee, as a taxable REIT subsidiary of the Company, is subject to federal and state income taxes. The taxable REIT subsidiary incurred a loss for the years ended December 31, 2007, 2006 and 2005, and therefore did not have any tax expense. No operating loss benefit has been recorded in the consolidated balance sheet since realization is uncertain. Total net operating loss carry forward for federal income tax purposes was approximately \$20.1 million as of December 31, 2007. The net operating losses expire beginning in 2024. There are no material differences between the book and tax basis of the Company's assets.

Notes to Consolidated Financial Statements—(Continued)

Sales and Marketing Costs

Sales and marketing costs are expensed when incurred. These costs represent the expense for franchise advertising and reservation systems under the terms of the hotel management and franchise agreements and general and administrative expenses that are directly attributable to advertising and promotion.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Recently Adopted Accounting Pronouncements

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109. This interpretation requires that income tax positions recognized in an entity's tax returns have a more-likely-than-not chance of being sustained prior to recording the related tax benefit in the financial statements. Tax benefits would be derecognized if information became available which indicated that it was more-likely-than-not that the position would not be sustained. The adoption of this interpretation has not had a material impact on the Company's results of operations or financial position.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued FASB Statement No. 141R, Business Combinations. This statement revises Statement 141, Business Combinations, by requiring an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This method replaces the cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. A significant change included in Statement 141R is the requirement that costs incurred to effect an acquisition, as well as restructuring costs resulting from an acquisition, must be accounted for separately as expenses. These costs were previously capitalized as part of the cost of the acquisition. Another significant change is the requirement that pre-acquisition contingencies be recognized at fair value as of the date of acquisition if it is more likely than not that they will meet the definition of an asset or liability. Statement 141R will be adopted by the Company in the first quarter of 2009. The adoption of the statement is not anticipated to have a material impact on the Company's results of operations or financial position, as the Company does not anticipate the acquisition of any significant businesses after the effective date.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. Statement 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this Statement does not require any new fair value measurements. This guidance was issued to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. Statement 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of the statement is not anticipated to have a material impact on the Company's results of operations or financial position.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. Statement 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the guidance is to improve financial reporting by providing entities

Notes to Consolidated Financial Statements—(Continued)

with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Statement 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company does not anticipate making the election to measure financial assets at fair value and therefore, adoption of this standard will not have an impact on the financial statements.

In December 2007, the FASB issued FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51. Statement 160 requires that ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. The Statement also requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. Statement 160 will be adopted by the Company in the first quarter of 2009. The adoption of the statement is not anticipated to have a material impact on the Company's results of operations or financial position.

Note 2

Investments in Real Estate

As of December 31, 2007, the Company owned 67 hotels consisting of the following: thirteen Hilton Garden Inn hotels, ten Residence Inn hotels, ten Courtyard hotels, eight SpringHill Suites hotels, six Homewood Suites hotels, six TownePlace Suites hotels, five Fairfield Inn hotels, four Hampton Inn hotels, three Hampton Inn & Suites hotels and two Marriott hotels. The hotels are located in various states and, in aggregate, consist of 7,750 rooms.

Investment in hotels consisted of the following (in thousands):

| | December 31, 2007 | December 31, 2006 |
|---|-------------------|-------------------|
| Land | \$107,163 | \$107,288 |
| Building and Improvements | 728,005 | 723,378 |
| Furniture, Fixtures and Equipment | 49,992 | 44,168 |
| | 885,160 | 874,834 |
| Less Accumulated Depreciation | (64,692) | (37,928) |
| Investment in Real Estate, net | <u>\$820,468</u> | <u>\$836,906</u> |

The following table summarizes the location, brand, manager, date acquired, number of rooms and gross purchase price for each hotel. All dollar amounts are in thousands.

| City | State | Brand | Manager | Date Acquired | Rooms | Gross Purchase Price |
|--------------------|----------------|----------------------|-------------|------------------|-------|----------------------------|
| Ft. Worth | Texas | SpringHill Suites | Marriott | 5/28/04 | 145 | \$13,340 |
| Myrtle Beach | South Carolina | Courtyard | Marriott | 6/8/04 | 135 | 9,200 |
| Redmond | Washington | Marriott | Marriott | 7/7/04 | 262 | 64,000 |
| Anchorage | Alaska | Hilton Garden Inn | Stonebridge | 10/12/04 | 125 | 18,900 |
| Anchorage | Alaska | Homewood Suites | Stonebridge | 10/12/04 | 122 | 13,200 |
| Arcadia | California | Hilton Garden Inn | Stonebridge | 10/12/04 | 124 | 12,000 |
| Arcadia | California | SpringHill Suites | Stonebridge | 10/12/04 | 86 | 8,100 |
| Glendale | Colorado | Hampton Inn & Suites | Stonebridge | 10/12/04 | 133 | 14,700 |
| Lakewood | Colorado | Hampton Inn | Stonebridge | 10/12/04 | 170 | 10,600 |

Notes to Consolidated Financial Statements—(Continued)

| <u>City</u> | <u>State</u> | <u>Brand</u> | <u>Manager</u> | <u>Date Acquired</u> | <u>Rooms</u> | <u>Gross Purchase Price</u> |
|------------------------|--------------|----------------------|----------------|--------------------------|--------------|-------------------------------------|
| Lake Forest | California | Hilton Garden Inn | Stonebridge | 10/12/04 | 103 | 11,400 |
| Phoenix | Arizona | Hampton Inn | Stonebridge | 10/12/04 | 99 | 6,700 |
| Anchorage | Alaska | Hampton Inn | Stonebridge | 3/14/05 | 101 | 11,500 |
| Bakersfield | California | Hilton Garden Inn | Hilton | 3/18/05 | 120 | 11,500 |
| Tallahassee | Florida | Hilton Garden Inn | Hilton | 3/18/05 | 99 | 10,850 |
| Lake Mary | Florida | Courtyard | LBA | 3/18/05 | 86 | 6,000 |
| Foothill Ranch | California | Hampton Inn | Stonebridge | 4/21/05 | 84 | 7,400 |
| Ft. Worth | Texas | Residence Inn | Western | 5/6/05 | 149 | 17,000 |
| Boulder | Colorado | Marriott | WLS | 5/9/05 | 157 | 30,000 |
| Ft. Worth | Texas | Homewood Suites | Hilton | 5/24/05 | 137 | 9,097 |
| Nashville | Tennessee | Homewood Suites | Hilton | 5/24/05 | 121 | 8,103 |
| Albany | Georgia | Courtyard | LBA | 6/24/05 | 84 | 8,597 |
| Lakeland | Florida | Residence Inn | LBA | 6/24/05 | 78 | 9,886 |
| Huntsville | Alabama | Residence Inn | LBA | 6/24/05 | 78 | 8,288 |
| Dothan | Alabama | Hampton Inn & Suites | LBA | 6/24/05 | 85 | 8,673 |
| Columbus | Georgia | Residence Inn | LBA | 6/24/05 | 78 | 7,888 |
| Las Colinas | Texas | TownePlace Suites | Western | 6/30/05 | 136 | 7,178 |
| Arlington | Texas | TownePlace Suites | Western | 6/30/05 | 95 | 7,148 |
| Arlington | Texas | SpringHill Suites | Western | 6/30/05 | 122 | 7,486 |
| Tempe | Arizona | TownePlace Suites | Western | 6/30/05 | 119 | 8,128 |
| Tempe | Arizona | SpringHill Suites | Western | 6/30/05 | 121 | 8,060 |
| Wallingford | Connecticut | Homewood Suites | WLS | 7/8/05 | 104 | 12,780 |
| McAllen | Texas | Hilton Garden Inn | Western | 7/19/05 | 104 | 9,000 |
| Pensacola | Florida | Hampton Inn & Suites | LBA | 7/21/05 | 85 | 9,279 |
| Rocky Hill | Connecticut | Residence Inn | WLS | 8/1/05 | 96 | 12,070 |
| Dothan | Alabama | Courtyard | LBA | 8/11/05 | 78 | 8,016 |
| Somerset | New Jersey | Homewood Suites | WLS | 8/17/05 | 123 | 17,750 |
| Birmingham | Alabama | Fairfield Inn | LBA | 8/25/05 | 63 | 2,176 |
| Tuscaloosa | Alabama | Courtyard | LBA | 8/25/05 | 78 | 7,551 |
| Tuscaloosa | Alabama | Fairfield Inn | LBA | 8/25/05 | 63 | 3,982 |
| Pensacola | Florida | Courtyard | LBA | 8/25/05 | 90 | 11,369 |
| Pensacola | Florida | Fairfield Inn | LBA | 8/25/05 | 63 | 4,858 |
| Pittsburgh | Pennsylvania | Residence Inn | WLS | 9/2/05 | 156 | 11,000 |
| Laredo | Texas | Residence Inn | Western | 9/12/05 | 109 | 11,445 |
| Mt. Olive | New Jersey | Residence Inn | WLS | 9/15/05 | 123 | 12,070 |
| Saratoga Springs | New York | Hilton Garden Inn | WLS | 9/29/05 | 112 | 17,750 |
| Huntsville | Alabama | Fairfield Inn | LBA | 9/30/05 | 79 | 4,954 |
| Savannah | Georgia | SpringHill Suites | LBA | 9/30/05 | 79 | 5,407 |
| Montgomery | Alabama | SpringHill Suites | LBA | 9/30/05 | 79 | 6,835 |
| Valdosta | Georgia | Courtyard | LBA | 10/3/05 | 84 | 8,284 |
| Farmington | Connecticut | Courtyard | WLS | 10/20/05 | 119 | 16,330 |
| Orange Park | Florida | Fairfield Inn | LBA | 11/8/05 | 83 | 7,221 |
| Folsom | California | Hilton Garden Inn | Inn Ventures | 11/30/05 | 100 | 18,028 |
| Milpitas | California | Hilton Garden Inn | Inn Ventures | 11/30/05 | 161 | 18,600 |
| Roseville | California | Hilton Garden Inn | Inn Ventures | 11/30/05 | 131 | 20,759 |
| Renton | Washington | Hilton Garden Inn | Inn Ventures | 11/30/05 | 150 | 16,096 |
| Laredo | Texas | Homewood Suites | Western | 11/30/05 | 106 | 10,500 |
| Dallas | Texas | SpringHill Suites | Western | 12/9/05 | 147 | 19,500 |

Notes to Consolidated Financial Statements—(Continued)

| <u>City</u> | <u>State</u> | <u>Brand</u> | <u>Manager</u> | <u>Date Acquired</u> | <u>Rooms</u> | <u>Gross Purchase Price</u> |
|----------------------|--------------|-------------------|----------------|--------------------------|--------------|-------------------------------------|
| Hillsboro | Oregon | TownePlace Suites | Inn Ventures | 12/19/05 | 136 | 11,500 |
| Kent | Washington | TownePlace Suites | Inn Ventures | 12/19/05 | 152 | 12,000 |
| Mukilteo | Washington | TownePlace Suites | Inn Ventures | 12/19/05 | 128 | 12,000 |
| Portland | Oregon | Residence Inn | Inn Ventures | 12/19/05 | 258 | 42,000 |
| Fredericksburg | Virginia | Hilton Garden Inn | Hilton | 12/20/05 | 148 | 16,600 |
| San Francisco | California | Hilton Garden Inn | Inn Ventures | 1/30/06 | 169 | 12,266 |
| Clearwater | Florida | SpringHill Suites | LBA | 2/17/06 | 79 | 6,923 |
| Hillsboro | Oregon | Residence Inn | Inn Ventures | 3/9/06 | 122 | 15,500 |
| Hillsboro | Oregon | Courtyard | Inn Ventures | 3/9/06 | 155 | 11,000 |
| Panama City | Florida | Courtyard | LBA | 4/26/06 | 84 | 9,245 |
| Total | | | | | <u>7,750</u> | <u>\$827,566</u> |

The Company leased all of its hotels to wholly-owned taxable REIT subsidiaries under master hotel lease agreements. The Company also used the proceeds of its offering to pay 2% of the gross purchase price for these hotels, which equals approximately \$16.6 million, as a commission to ASRG.

No goodwill or intangible assets were recorded in connection with any of the acquisitions.

As there can be no assurance that all conditions to closing will be satisfied, the Company includes deposits for hotels under contract in "Other assets, net" in the Company's Consolidated Balance Sheets and in "Cash paid for potential acquisition of hotels" in its Consolidated Statements of Cash Flows.

Note 3

Other Assets

On January 25, 2006, the Company, through a wholly-owned subsidiary, Apple Six Hospitality Air, LLC, purchased a Lear 40 jet to be used primarily for renovation and asset management purposes. The purchase price was approximately \$8.3 million. In July 2007, the Company formed Apple Air Holding, LLC ("Apple Air"), which acquired Apple Six Hospitality Air, LLC. Apple Air is jointly owned by the Company and Apple REIT Seven, Inc. ("Apple Seven"). Apple Seven's ownership interest is accounted for as a minority interest and is included in other liabilities on the Company's consolidated balance sheets. On November 20, 2007, Apple Air purchased a 2003 Lear 40 jet, also to be used primarily for renovation and asset management purposes. The purchase price was approximately \$6.9 million. These assets are depreciated on a straight-line basis over a useful life of ten years. For the years ended December 31, 2007 and 2006, the Company recorded depreciation expense in the amount of approximately \$912,000 and \$848,000 on the two aircraft.

Note 4

Notes Payable and Credit Agreements

In conjunction with the acquisition of five hotels in December 2005, the Company utilized short-term unsecured financing from a commercial bank in the amount of \$40 million to fund a portion of the aggregate gross purchase price. This financing was evidenced by a promissory note and was governed by a loan agreement. The outstanding principal at December 31, 2005 was \$28 million, and the note was repaid and extinguished on January 24, 2006.

Notes to Consolidated Financial Statements—(Continued)

The Company has also assumed approximately \$54.1 million of debt secured by a first mortgage on 14 of its properties. The following table summarizes the hotel, interest rate, maturity date and the principal amount assumed associated with each mortgage. All dollar amounts are in thousands.

| Location | Brand | Rate | Maturity Date | Principal Assumed | Outstanding balance as of Dec. 31, 2007 | Outstanding balance as of Dec. 31, 2006 |
|--------------------------|----------------------|-------|---------------|-------------------|---|---|
| Glendale, CO | Hampton Inn & Suites | 6.93% | 1/01/13 | \$ 6,603 | \$ 5,964 | \$ 6,181 |
| Anchorage, AK | Hampton Inn | 7.75% | 4/01/09 | 5,531 | 4,903 | 5,148 |
| Foothill Ranch, CA | Hampton Inn | 8.06% | 8/01/11 | 4,502 | 4,287 | 4,374 |
| Dothan, AL | Courtyard | 7.35% | 4/01/08 | 3,244 | 3,034 | 3,128 |
| Birmingham, AL | Fairfield Inn | 7.35% | 5/01/08 | 2,086 | 1,952 | 2,012 |
| Tuscaloosa, AL | Courtyard | 7.30% | 5/01/08 | 3,388 | 3,169 | 3,268 |
| Tuscaloosa, AL | Fairfield Inn | 7.30% | 5/01/08 | 1,690 | 1,580 | 1,630 |
| Pensacola, FL | Courtyard | 7.35% | 5/01/08 | 4,557 | 4,264 | 4,396 |
| Pensacola, FL | Fairfield Inn | 7.35% | 5/01/08 | 2,734 | 2,559 | 2,638 |
| Huntsville, AL | Fairfield Inn | 6.80% | 1/11/13 | 3,028 | 2,896 | 2,957 |
| Savannah, GA | SpringHill Suites | 6.80% | 1/11/13 | 3,066 | 2,933 | 2,994 |
| Montgomery, AL | SpringHill Suites | 6.80% | 1/11/13 | 3,785 | 3,620 | 3,696 |
| Orange Park, FL | Fairfield Inn | 8.52% | 2/11/11 | 3,193 | 3,071 | 3,132 |
| Hillsboro, OR | Courtyard | 6.40% | 12/11/14 | 6,663 | 6,454 | 6,577 |
| Total | | | | <u>\$54,070</u> | <u>\$50,686</u> | <u>\$52,131</u> |

The aggregate amounts of principal payable under the Company's promissory notes, for the five years subsequent to December 31, 2007 are as follows (in thousands):

| | Total |
|---|-----------------|
| 2008 | \$17,555 |
| 2009 | 5,431 |
| 2010 | 850 |
| 2011 | 7,546 |
| 2012 | 756 |
| Thereafter | <u>18,548</u> |
| | 50,686 |
| Fair Value Adjustment of Assumed Debt | <u>993</u> |
| Total | <u>\$51,679</u> |

Fair value adjustments were recorded in connection with the assumption of the above market rate debt in connection with the hotel acquisitions. These premiums are amortized into interest expense over the remaining term of the related indebtedness using the effective interest rate method. The effective rates range from 5.71% to 6.11%. The total adjustment was \$2.3 million and the unamortized balances at December 31, 2007 and 2006 were \$1.0 million and \$1.5 million, respectively.

Note 5

Shareholders' Equity

The Company concluded its best-efforts offering of Units on March 3, 2006. The Company registered its Units on Registration Statement Form S-11 (File No. 333-112169) filed April 20, 2004. The Company began its

Notes to Consolidated Financial Statements—(Continued)

best-efforts offering (the “Offering”) of Units on April 23, 2004, the same day the Registration Statement was declared effective by the Securities and Exchange Commission. Each Unit consists of one common share and one Series A preferred share.

The Series A preferred shares have no voting rights and no conversion rights. In addition, the Series A preferred shares are not separately tradable from the common shares to which they relate. The Series A preferred shares do not have any distribution rights except a priority distribution upon the sale of the Company’s assets. The priority distribution (“Priority Distribution”) will be equal to \$11.00 per Series A preferred share, and will be paid before any distribution will be made to the holders of any other shares. Upon the Priority Distribution the Series A preferred shares will have no other distribution rights.

The Company has issued 240,000 Series B convertible preferred shares to Glade M. Knight, Chairman, Chief Executive Officer and President of the Company, in exchange for the payment by him of \$0.10 per Series B convertible preferred share, or an aggregate of \$24,000. The Series B convertible preferred shares are convertible into common shares pursuant to the formula and on the terms and conditions set forth below.

There are no dividends payable on the Series B convertible preferred shares. Holders of more than two-thirds of the Series B convertible preferred shares must approve any proposed amendment to the articles of incorporation that would adversely affect the Series B convertible preferred shares.

Upon the Company’s liquidation, the holder of the Series B convertible preferred shares is entitled to a priority liquidation payment before any distribution of liquidation proceeds to the holders of the common shares. However, the priority liquidation payment of the holder of the Series B convertible preferred shares is junior to the holders of the Series A preferred shares distribution rights. The holder of a Series B convertible preferred share is entitled to a liquidation payment of \$11 per number of common shares each Series B convertible preferred share would be convertible into according to the formula described below. In the event that the liquidation of the Company’s assets results in proceeds that exceed the distribution rights of the Series A preferred shares and the Series B convertible preferred shares, the remaining proceeds will be distributed between the common shares and the Series B convertible preferred shares, on an as converted basis.

Each holder of outstanding Series B convertible preferred shares shall have the right to convert any of such shares into common shares of the Company upon and for 180 days following the occurrence of any of the following events:

- (1) substantially all of the Company’s assets, stock or business is sold or transferred through exchange, merger, consolidation, lease, share exchange, sale or otherwise, other than a sale of assets in liquidation, dissolution or winding up of the Company;
- (2) the termination or expiration without renewal of the advisory agreement with Apple Six Advisors, Inc. (“ASA”), or if the Company ceases to use ASRG to provide property acquisition and disposition services; or
- (3) the Company’s common shares are listed on any securities exchange or quotation system or in any established market.

Upon the occurrence of any conversion event, each Series B convertible preferred share may be converted into 24.17104 common shares. In the event that the Company raises additional gross proceeds in a subsequent public offering, each Series B convertible preferred share may be converted into an additional number of common shares based on the additional gross proceeds raised through the date of conversion in a subsequent public offering according to the following formula: $(X/50 \text{ million}) \times 1.20568$, where X is the additional gross proceeds rounded down to the nearest 50 million.

Notes to Consolidated Financial Statements—(Continued)

No additional consideration is due upon the conversion of the Series B convertible preferred shares. The conversion into common shares of the Series B convertible preferred shares will result in dilution of the common shareholders' interests.

Expense related to issuance of 240,000 Series B convertible preferred shares to Mr. Knight will be recognized at such time when the number of common shares to be issued for conversion of the Series B shares can be reasonably estimated and the event triggering the conversion of the Series B shares to common shares occurs. The expense will be measured as the difference between the fair value of the common stock for which the Series B shares can be converted and the amounts paid for the Series B shares. If a conversion event had occurred at December 31, 2007, expense would have ranged from \$0 to \$63.8 million (assumes \$11 per Unit fair market value), which represents approximately 5.8 million shares of common stock.

In July 2005, the Company instituted a Unit Redemption Program to provide limited interim liquidity to its shareholders who have held their Units for at least one year. Shareholders may request redemption of Units for a purchase price equal to the lesser of: (1) the purchase price per Unit that the shareholder actually paid for the Unit; or (2) \$11.00 per Unit. The Company reserves the right to change the purchase price of redemptions, reject any request for redemption, or otherwise amend the terms of, suspend, or terminate the Unit Redemption Program. As of December 31, 2007, the Company has redeemed 5.9 million Units in the amount of \$64.4 million under the program, including 2.5 million Units for \$27.7 million redeemed in 2007 and 2.9 million Units in the amount of \$31.9 million redeemed in 2006.

In February 2006, the Company instituted a Dividend Reinvestment Plan for its shareholders. The plan provides a convenient and cost effective way to increase shareholder investment in the Company by reinvesting dividends to purchase additional Units of the Company. The uses of the proceeds from this plan may include purchasing Units under the Company's Unit Redemption Program, enhancing properties, satisfying financing obligations and other expenses, increasing working capital, funding various corporate operations, and acquiring hotels. As of December 31, 2007, approximately 5.0 million Units, representing \$55.3 million in proceeds to the Company, have been issued under the plan, including 3.0 million Units representing \$33.3 million issued in 2007 and 2.0 million Units representing \$22.0 million issued in 2006.

The Company's articles of incorporation authorize issuance of up to 15 million additional preferred shares. No preferred shares other than the Series A preferred shares and the Series B convertible preferred shares (discussed above) have been issued. The Company believes that the authorization to issue additional preferred shares benefits the Company and its shareholders by permitting flexibility in financing additional growth, giving the Company additional financing options in corporate planning and in responding to developments in business, including financing of additional acquisitions and other general corporate purposes. Having authorized preferred shares available for issuance in the future gives the Company the ability to respond to future developments and allows preferred shares to be issued without the expense and delay of a special shareholders' meeting. At present, the Company has no specific financing or acquisition plans involving the issuance of additional preferred shares and the Company does not propose to fix the characteristics of any series of preferred shares in anticipation of issuing preferred shares other than the Series A preferred shares and Series B convertible preferred shares discussed above. The Company cannot now predict whether or to what extent, if any, additional preferred shares will be used or if so used what the characteristics of a particular series may be. The voting rights and rights to distributions of the holders of common shares will be subject to the prior rights of the holders of any subsequently-issued preferred shares. Unless otherwise required by applicable law or regulation, the preferred shares would be issuable without further authorization by holders of the common shares and on such terms and for such consideration as may be determined by the Board of Directors. The preferred shares could be issued in one or more series having varying voting rights, redemption and conversion features, distribution (including liquidating distribution) rights and preferences, and other rights, including rights of approval of specified transactions. A series of preferred shares could be given rights that are superior to rights of holders of common

Notes to Consolidated Financial Statements—(Continued)

shares and a series having preferential distribution rights could limit common share distributions and reduce the amount holders of common shares would otherwise receive on dissolution.

Note 6

Stock Incentive Plans

On January 20, 2004, the Board of Directors approved a Non-Employee Directors Stock Option Plan (the "Directors Plan") whereby directors, who are not employees of the Company or affiliates, automatically receive the option to purchase Units. Under the Directors Plan, the number of Units authorized for issuance is equal to 45,000 plus 1.8% of the number of Units sold in excess of the minimum offering of 4,761,905 Units. This plan currently relates to the initial public offering of 91,125,541 Units. Therefore, the maximum number of Units authorized under the Directors Plan is currently 1,599,545 based on the number of shares issued as of December 31, 2007. The options expire 10 years from the date of grant.

On January 20, 2004, the Board of Directors approved an Incentive Stock Option Plan (the "Incentive Plan") whereby incentive awards may be granted to certain employees of the Company or affiliates. Under the Incentive Plan, the number of Units authorized for issuance is equal to 35,000 plus 4.625% of the number of Units sold in the initial offering in excess of 4,761,905. This plan also currently relates to the initial public offering of 91,125,541 Units. Therefore, the maximum number of Units that can be issued under the Incentive Plan is currently 4,029,318 based on the number of shares issued as of December 31, 2007.

Both plans generally provide, among other things, that options be granted at exercise prices not lower than the market value of the Units on the date of grant. The options expire 10 years from the date of the grant. During 2007, 2006 and 2005, the Company granted options to purchase 71,640, 71,948 and 42,676 Units, respectively, under the Directors Plan. All of the options issued vested at the date of issuance, and have an exercise price of \$11 per Unit. The Company granted no options under the Incentive Plan during 2007, 2006 and 2005. Activity in the Company's share option plan during 2007, 2006 and 2005 is summarized in the following table:

| | 2007 | 2006 | 2005 |
|--|----------|----------|----------|
| Outstanding, beginning of year: | 144,172 | 72,224 | 29,548 |
| Granted | 71,640 | 71,948 | 42,676 |
| Exercised | — | — | — |
| Expired or canceled | — | — | — |
| Outstanding, end of year: | 215,812 | 144,172 | 72,224 |
| Exercisable, end of year: | 215,812 | 144,172 | 72,224 |
| The weighted-average exercise price: | \$ 11.00 | \$ 11.00 | \$ 11.00 |

Prior to January 1, 2006, the Company used the intrinsic value method, as defined by APB 25, to account for stock-based compensation. This method required compensation expense to be recognized for the excess of the quoted market price of the stock at the grant date or the measurement date over the amount an employee must pay to acquire the stock. Beginning January 1, 2006, the Company adopted FASB Statement No. 123(R) under the modified prospective transition method and recorded \$68,000 and \$69,000 of share-based expense for the 71,640 and 71,948 options issued during the years ended December 31, 2007 and 2006.

Notes to Consolidated Financial Statements—(Continued)

Note 7

Management and Franchise Agreements

Each of the Company's 67 hotels are operated and managed, under separate management agreements, by affiliates of one of the following companies (indicates the number of hotels managed): Marriott International, Inc. ("Marriott") (3), Stonebridge Realty Advisors, Inc. ("Stonebridge") (10), Hilton Hotels Corporation ("Hilton") (5), Western International ("Western") (10), Larry Blumberg & Associates ("LBA") (20), White Lodging Services Corporation ("WLS") (8), or Inn Ventures, Inc. ("Inn Ventures") (11). The agreements have remaining terms ranging from 3 to 27 years. Fees associated with the agreements generally include the payment of base management fees, incentive management fees, accounting fees, and other fees for centralized services which are allocated among all of the hotels that receive the benefit of such services. Base management fees are calculated as a percentage of gross revenues. Incentive management fees are calculated as a percentage of operating profit in excess of a priority return to the Company, as defined in the management agreements. The Company has the option to terminate the management agreements if specified performance thresholds are not satisfied. During the years ended December 31, 2007, 2006 and 2005 the Company incurred approximately \$9.9, \$8.7 and \$3.2 million in management fees, respectively.

Stonebridge, Western, LBA, WLS, and Inn Ventures are not affiliated with either Marriott or Hilton, and as a result, the hotels managed by these companies were required to obtain separate franchise agreements with each respective franchisor. The Hilton franchise agreements generally provide for a term of 13 to 20 years. Fees associated with the Hilton agreements generally include the payment of royalty fees and program fees based on room revenues. The Marriott franchise agreements provide for an initial term of 15 to 20 years. Fees associated with the Marriott agreements include the payment of royalty fees, marketing fees, reservation fees and a communications support fee based on room revenues. During the years ended December 31, 2007, 2006 and 2005 the Company incurred approximately \$10.3, \$9.0 and \$4.0 million in franchise fees.

Note 8

Related Parties

The Company has significant transactions with related parties. These transactions cannot be construed to be arms length, and the results of the Company's operations may be different if these transactions were conducted with non-related parties.

The Company has a contract with ASRG, a related party, to provide brokerage services for the acquisition and disposition of the Company's real estate assets. In accordance with the contract, ASRG is paid a fee of 2% of the gross purchase price of any acquisitions or gross sale price of any dispositions of real estate investments, subject to certain conditions. As of December 31, 2007, total payments to ASRG for services under the terms of this contract were \$16.6 million, which was capitalized as a part of the purchase price of the hotels. There were no fees incurred during 2007 under this contract.

The Company is party to an advisory agreement with Apple Six Advisors, Inc. ("ASA"), pursuant to which ASA provides management services to the Company. An annual fee ranging from .1% to .25% of total equity proceeds received by the Company, in addition to certain reimbursable expenses, are payable for these services. Until May 2007, ASA utilized Apple Hospitality Two, Inc. to provide these services. From May to October 2007, ASA utilized Apple Fund Management, LLC, a subsidiary of Apple Hospitality Five, Inc. ("AHF") to provide these services. In October 2007, AHF merged with an unrelated third party and the Company acquired all of AHF's interest in Apple Fund Management, LLC at no incremental cost to the Company. The advisory fees incurred under the agreement with ASA in 2007, 2006 and 2005 were approximately \$2.5, \$2.3 and \$0.7 million, respectively.

Notes to Consolidated Financial Statements—(Continued)

Effective October 2007, through its wholly-owned subsidiary, Apple Fund Management, LLC, the Company provides support services to ASRG, ASA, Apple Seven Advisors, Inc. ("A7A"), Apple Suites Realty Group, Inc. ("Suites"), Apple REIT Seven, Inc., Apple Eight Advisors, Inc. ("A8A"), Apple REIT Eight, Inc. and Apple REIT Nine, Inc. A7A provides day to day advisory and administrative functions for Apple REIT Seven, Inc. A8A provides day to day advisory and administrative functions for Apple REIT Eight, Inc. Suites provides real estate brokerage services to Apple REIT Seven, Inc. and Apple REIT Eight, Inc. Each of these companies has agreed to reimburse the Company for its costs in providing these services. For the year ended December 31, 2007, the Company received reimbursement of its costs totaling approximately \$0.9 million. ASRG, ASA, A7A, Suites, A8A and Apple REIT Nine, Inc. are 100% owned by Glade Knight, the Company's Chairman and Chief Executive Officer.

Including ASRG, ASA, Suites, A7A, A8A and Apple REIT Nine, Inc. discussed above, Mr. Knight is also Chairman and Chief Executive Officer of Apple REIT Seven, Inc. (a diversified REIT) and Apple REIT Eight, Inc. (a newly formed company that intends to qualify as a diversified REIT). Mr. Knight was also Chairman and Chief Executive Officer of Apple Hospitality Two, Inc. (a hospitality REIT) until May 2007 and Apple Hospitality Five, Inc. (a hospitality REIT) until October 2007. Members of the Company's Board of Directors are also on the boards of Apple REIT Seven, Inc. and Apple REIT Eight, Inc. Until May 2007, members of the Company's Board of Directors were also on the board of Apple Hospitality Two, Inc. and, until October 2007, were on the board of Apple Hospitality Five, Inc.

Note 9

Pro Forma Information (Unaudited)

The following unaudited pro forma information for the year ended December 31, 2005 is presented as if the acquisitions of the Company's 62 hotels purchased through December 31, 2005 occurred on January 1, 2005. For the hotels acquired in 2006, the results of operations of those hotels for the period not owned were not significant compared to the Company's results of operations. The pro forma information does not purport to represent what the Company's results of operations would actually have been if such transactions, in fact, had occurred on January 1, 2005, nor does it purport to represent the results of operations for future periods. Amounts are in thousands except per share data.

| | <u>Year ended December 31, 2005</u> |
|---|---|
| Hotel revenues | \$189,423 |
| Net income | \$ 39,338 |
| Net income per common share-basic and diluted | \$ 0.54 |

The pro forma information reflects adjustments for actual revenues and expenses of the 51 hotels acquired in 2005 for the respective period owned prior to acquisition by the Company. Net income has been adjusted as follows: (1) interest income has been adjusted to reflect the reduction in cash and cash equivalents required to fund the acquisitions; (2) interest expense has been adjusted to reflect the assumption of debt; (3) depreciation has been adjusted based on the Company's basis in the hotels.

Notes to Consolidated Financial Statements—(Continued)

Note 10

Commitments

As of December 31, 2007, the Company had an outstanding contract for the purchase of a hotel located in Roanoke Rapids, North Carolina. The hotel is expected to be acquired in the first quarter of 2008 for approximately \$15.2 million, has 147 rooms and operates as a Hilton Garden Inn.

The Company has ground leases for five of its hotels with remaining terms ranging from 8 to 49 years. The aggregate amounts of minimum lease payments under these agreements for the five years subsequent to December 31, 2007 are as follows (in thousands):

| | <u>Total</u> |
|------------------|-----------------|
| 2008 | \$ 471 |
| 2009 | 471 |
| 2010 | 483 |
| 2011 | 487 |
| 2012 | 487 |
| Thereafter | <u>10,511</u> |
| Total | <u>\$12,910</u> |

Note 11

Industry Segments

The Company owns extended-stay and limited service hotel properties throughout the United States that generate rental and other property related income. The Company separately evaluates the performance of each of its hotel properties. However, because each of the hotels has similar economic characteristics, facilities, and services, the properties have been aggregated into a single operating segment. All segment disclosures are included in, or can be derived from, the Company's consolidated financial statements.

Note 12

Quarterly Financial Data (unaudited)

The following is a summary of quarterly results of operations for the period ended December 31, 2007:

| <u>(in thousands except per share data)</u> | <u>First Quarter</u> | <u>Second Quarter</u> | <u>Third Quarter</u> | <u>Fourth Quarter</u> |
|---|--------------------------|---------------------------|--------------------------|---------------------------|
| Revenues | \$60,179 | \$67,959 | \$69,405 | \$60,391 |
| Net income | \$13,781 | \$18,318 | \$19,209 | \$12,020 |
| Basic and diluted income per common share | \$ 0.15 | \$ 0.20 | \$ 0.21 | \$ 0.14 |
| Distributions declared and paid per common share | \$ 0.22 | \$ 0.22 | \$ 0.22 | \$ 0.22 |

The following is a summary of quarterly results of operations for the period ended December 31, 2006:

| <u>(in thousands except per share data)</u> | <u>First Quarter</u> | <u>Second Quarter</u> | <u>Third Quarter</u> | <u>Fourth Quarter</u> |
|---|--------------------------|---------------------------|--------------------------|---------------------------|
| Revenues | \$53,086 | \$62,137 | \$65,658 | \$54,994 |
| Net income | \$10,984 | \$15,191 | \$18,120 | \$ 9,818 |
| Basic and diluted income per common share | \$ 0.13 | \$ 0.17 | \$ 0.20 | \$ 0.11 |
| Distributions declared and paid per common share | \$ 0.22 | \$ 0.22 | \$ 0.22 | \$ 0.22 |

Notes to Consolidated Financial Statements—(Continued)

Note 13

Subsequent Events

In January 2008, the Company declared and paid \$6.6 million or \$.073 per common share, in a distribution to its common shareholders, of which \$2.9 million or 260,606 Units were reinvested under the Company's Dividend Reinvestment Plan.

On January 21, 2008, the Company redeemed 394,682 Units in the amount of \$4.3 million under its Unit Redemption Program.

In February 2008, the Company declared and paid \$6.8 million or \$.075 per common share, in a distribution to its common shareholders, of which \$2.9 million or 267,387 Units were reinvested under the Company's Dividend Reinvestment Plan.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Senior management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation process, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective and that there have been no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Since that evaluation process was completed, there have been no significant changes in internal controls or in other factors that could significantly affect these controls.

See Item 8 for the Report of Management on Internal Control over Financial Reporting and the Company's Independent Registered Public Accounting Firm's attestation report regarding internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K will be set forth in the Company's 2008 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 10, the 2008 Proxy Statement is incorporated herein by this reference.

Item 11. Executive Compensation

The information required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K will be set forth in the Company's 2008 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 11, the 2008 Proxy Statement is incorporated herein by this reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by Items 201(d) and 403 of Regulation S-K will be set forth in the Company's 2008 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 12, the 2008 Proxy Statement is incorporated herein by this reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by Items 404 and 407(a) of Regulation S-K will be set forth in the Company's 2008 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 13, the 2008 Proxy Statement is incorporated herein by this reference.

Item 14. Principal Accounting Fees and Services

This information required by Item 9(e) of Schedule 14A will be set forth in the Company's 2008 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 14, the 2008 Proxy Statement is incorporated herein by this reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

1. Financial Statements of Apple REIT Six, Inc.

Report of Management on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting—Ernst & Young LLP

Report of Independent Registered Public Accounting Firm—Ernst & Young LLP

Consolidated Balance Sheets as of December 31, 2007 and 2006

Consolidated Statements of Operations for the years ended December 31, 2007, 2006 and 2005

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2007, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

These financial statements are set forth in Item 8 of this report and are hereby incorporated by reference.

2. Financial Statement Schedules

Schedule III—Real Estate and Accumulated Depreciation (Included at the end of this Part IV of this report.)

3. Exhibits

Incorporated herein by reference are the exhibits listed under "Exhibits Index" to this Report available at www.sec.gov.

SCHEDULE III
Real Estate and Accumulated Depreciation
As of December 31, 2007
(dollars in thousands)

| Subsequently Capitalized | | | | | | | | | | | | | | | | | | |
|--------------------------|------|-------------|----------------------|--------|------------------|-------|----------------------|----------|------------|--------|----------------------|-----|---------------|--|------------------|--|------------|--|
| Initial Cost | | | Bldg./FF&E | | Bldg Imp. & FF&E | | Total Gross Cost (1) | | Acc Deprec | | Date of Construction | | Date Acquired | | Depreciable Life | | # of Rooms | |
| | | | Land | | Encumbrances | | | | | | | | | | | | | |
| | City | State | | | | | | | | | | | | | | | | |
| Birmingham | | Alabama | Fairfield Inn | \$ 354 | \$ 2,057 | \$ 99 | \$ 2,510 | \$ (166) | 1995 | Aug-05 | 3 - 39 yrs. | 63 | | | | | | |
| Dothan | | Alabama | Courtyard | 1,270 | 7,142 | 145 | 8,557 | (574) | 1996 | Aug-05 | 3 - 39 yrs. | 78 | | | | | | |
| Dothan | | Alabama | Hampton Inn & Suites | 842 | 8,129 | 21 | 8,992 | (710) | 2004 | Jun-05 | 3 - 39 yrs. | 85 | | | | | | |
| Huntsville | | Alabama | Fairfield Inn | 506 | 4,813 | 81 | 5,400 | (319) | 1999 | Sep-05 | 3 - 39 yrs. | 79 | | | | | | |
| Huntsville | | Alabama | Residence Inn | 947 | 7,632 | 72 | 8,651 | (606) | 2002 | Jun-05 | 3 - 39 yrs. | 78 | | | | | | |
| Montgomery | | Alabama | SpringHill Suites | 963 | 6,327 | 59 | 7,349 | (417) | 1998 | Sep-05 | 3 - 39 yrs. | 79 | | | | | | |
| Tuscaloosa | | Alabama | Courtyard | — | 7,953 | 201 | 8,154 | (578) | 1996 | Aug-05 | 3 - 39 yrs. | 78 | | | | | | |
| Tuscaloosa | | Alabama | Fairfield Inn | — | 4,240 | 110 | 4,350 | (308) | 1996 | Aug-05 | 3 - 39 yrs. | 63 | | | | | | |
| Anchorage | | Alaska | Hampton Inn | 1,220 | 10,501 | 1,915 | 13,636 | (1,265) | 1997 | Mar-05 | 3 - 39 yrs. | 101 | | | | | | |
| Anchorage | | Alaska | Hilton Garden Inn | 4,230 | 14,788 | 225 | 19,243 | (1,460) | 2002 | Oct-04 | 3 - 39 yrs. | 125 | | | | | | |
| Anchorage | | Alaska | Homewood Suites | 1,803 | 11,046 | 59 | 12,908 | (1,264) | 2004 | Oct-04 | 3 - 39 yrs. | 122 | | | | | | |
| Phoenix | | Arizona | Hampton Inn | 1,425 | 5,205 | 770 | 7,400 | (727) | 1998 | Oct-04 | 3 - 39 yrs. | 99 | | | | | | |
| Tempe | | Arizona | SpringHill Suites | 1,170 | 7,159 | 41 | 8,370 | (635) | 1998 | Jun-05 | 3 - 39 yrs. | 121 | | | | | | |
| Tempe | | Arizona | TownePlace Suites | 1,226 | 7,169 | 60 | 8,455 | (628) | 1998 | Jun-05 | 3 - 39 yrs. | 119 | | | | | | |
| Arcadia | | California | Hilton Garden Inn | 1,718 | 10,195 | 726 | 12,639 | (1,218) | 1999 | Oct-04 | 3 - 39 yrs. | 124 | | | | | | |
| Arcadia | | California | SpringHill Suites | 1,633 | 6,459 | 778 | 8,870 | (842) | 1999 | Oct-04 | 3 - 39 yrs. | 86 | | | | | | |
| Bakersfield | | California | Hilton Garden Inn | 1,166 | 10,565 | 92 | 11,823 | (1,057) | 2004 | Mar-05 | 3 - 39 yrs. | 120 | | | | | | |
| Folsom | | California | Hilton Garden Inn | 1,521 | 16,989 | 1,083 | 19,593 | (1,220) | 1999 | Nov-05 | 3 - 39 yrs. | 100 | | | | | | |
| Foothill Ranch | | California | Hampton Inn | 1,056 | 6,499 | 729 | 8,284 | (718) | 1998 | Apr-05 | 3 - 39 yrs. | 84 | | | | | | |
| Lake Forest | | California | Hilton Garden Inn | 1,541 | 9,425 | 69 | 11,035 | (1,082) | 2004 | Oct-04 | 3 - 39 yrs. | 103 | | | | | | |
| Milpitas | | California | Hilton Garden Inn | 2,565 | 16,534 | 1,723 | 20,822 | (1,343) | 1999 | Nov-05 | 3 - 39 yrs. | 161 | | | | | | |
| Roseville | | California | Hilton Garden Inn | 2,362 | 18,937 | 1,403 | 22,702 | (1,418) | 1999 | Nov-05 | 3 - 39 yrs. | 131 | | | | | | |
| San Francisco | | California | Hilton Garden Inn | 2,007 | 9,545 | 1,856 | 13,408 | (931) | 1999 | Jan-06 | 3 - 39 yrs. | 169 | | | | | | |
| Boulder | | Colorado | Marriott | 3,066 | 27,825 | 1,721 | 32,612 | (2,530) | 1997 | May-05 | 3 - 39 yrs. | 157 | | | | | | |
| Glendale | | Colorado | Hampton Inn & Suites | 3,641 | 11,221 | 1,179 | 16,041 | (1,373) | 1999 | Oct-04 | 3 - 39 yrs. | 133 | | | | | | |
| Lakewood | | Colorado | Hampton Inn | 2,508 | 8,090 | 377 | 10,975 | (988) | 2003 | Oct-04 | 3 - 39 yrs. | 170 | | | | | | |
| Farmington | | Connecticut | Courtyard | 1,794 | 15,434 | 1 | 17,229 | (1,076) | 2005 | Oct-05 | 3 - 39 yrs. | 119 | | | | | | |
| Rocky Hill | | Connecticut | Residence Inn | 1,472 | 11,284 | 3 | 12,759 | (862) | 2005 | Aug-05 | 3 - 39 yrs. | 96 | | | | | | |
| Wallingford | | Connecticut | Homewood Suites | 1,419 | 12,072 | 28 | 13,519 | (958) | 2005 | Jul-05 | 3 - 39 yrs. | 104 | | | | | | |
| Clearwater | | Florida | SpringHill Suites | — | 7,214 | — | 7,214 | (469) | 2006 | Feb-06 | 3 - 39 yrs. | 79 | | | | | | |
| Lake Mary | | Florida | Courtyard | 690 | 5,568 | 588 | 6,846 | (571) | 1995 | Mar-05 | 3 - 39 yrs. | 86 | | | | | | |
| Lakeland | | Florida | Residence Inn | 1,520 | 8,699 | 601 | 10,820 | (689) | 2001 | Jun-05 | 3 - 39 yrs. | 78 | | | | | | |
| Orange Park | | Florida | Fairfield Inn | 855 | 6,979 | 81 | 7,915 | (424) | 1998 | Nov-05 | 3 - 39 yrs. | 83 | | | | | | |
| Panama City | | Florida | Courtyard | 1,407 | 8,217 | 4 | 9,628 | (499) | 2006 | Mar-06 | 3 - 39 yrs. | 84 | | | | | | |
| Pensacola | | Florida | Courtyard | 1,186 | 10,728 | 201 | 12,115 | (760) | 1997 | Aug-05 | 3 - 39 yrs. | 90 | | | | | | |
| Pensacola | | Florida | Fairfield Inn | 470 | 4,703 | 123 | 5,296 | (326) | 1995 | Aug-05 | 3 - 39 yrs. | 63 | | | | | | |
| Pensacola | | Florida | Hampton Inn & Suites | 1,248 | 8,354 | 6 | 9,608 | (724) | 2005 | Jul-05 | 3 - 39 yrs. | 85 | | | | | | |
| Tallahassee | | Florida | Hilton Garden Inn | 1,103 | 10,130 | 484 | 11,717 | (935) | 1997 | Mar-05 | 3 - 39 yrs. | 99 | | | | | | |
| Albany | | Georgia | Courtyard | 1,253 | 7,658 | 63 | 8,974 | (670) | 2004 | Jun-05 | 3 - 39 yrs. | 84 | | | | | | |
| Columbus | | Georgia | Residence Inn | — | 8,184 | 86 | 8,270 | (677) | 2003 | Jun-05 | 3 - 39 yrs. | 78 | | | | | | |

SCHEDULE III
Real Estate and Accumulated Depreciation—(Continued)
As of December 31, 2007
(dollars in thousands)

| City | State | Brand | Encumbrances | Initial Cost | | Subsequently Capitalized | | Total Gross Cost (1) | Acc Deprec | Date of Construction | Date Acquired | Depreciable Life | # of Rooms |
|--------------------------------------|----------------|-------------------|--------------|--------------|---------------------------|--------------------------|--|----------------------|------------|----------------------|---------------|------------------|------------|
| | | | | Land | Bldg./ FF&E | Bldg Imp. & FF&E | | | | | | | |
| Savannah | Georgia | SpringHill Suites | 2,933 | 693 | 5,099 | 24 | | 5,816 | (335) | 1999 | Sep-05 | 3 - 39 yrs. | 79 |
| Valdosta | Georgia | Courtyard | — | 1,036 | 7,529 | 118 | | 8,683 | (551) | 2002 | Oct-05 | 3 - 39 yrs. | 84 |
| Mt. Olive | New Jersey | Residence Inn | — | 1,410 | 11,331 | 11 | | 12,752 | (879) | 2005 | Sep-05 | 3 - 39 yrs. | 123 |
| Somerset | New Jersey | Homewood Suites | — | 1,813 | 16,801 | 42 | | 18,656 | (1,256) | 2005 | Aug-05 | 3 - 39 yrs. | 123 |
| Saratoga Springs | New York | Hilton Garden Inn | — | 2,399 | 15,885 | 240 | | 18,524 | (1,046) | 1999 | Sep-05 | 3 - 39 yrs. | 112 |
| Hillsboro | Oregon | Courtyard | 6,454 | 1,879 | 9,484 | 69 | | 11,432 | (542) | 1996 | Mar-06 | 3 - 39 yrs. | 155 |
| Hillsboro | Oregon | Residence Inn | — | 2,665 | 13,295 | 72 | | 16,032 | (816) | 1994 | Mar-06 | 3 - 39 yrs. | 122 |
| Hillsboro | Oregon | TownePlace Suites | — | 2,150 | 9,715 | 587 | | 12,452 | (674) | 1999 | Dec-05 | 3 - 39 yrs. | 136 |
| Portland | Oregon | Residence Inn | — | 4,400 | 38,687 | 1,889 | | 44,976 | (2,391) | 2001 | Dec-05 | 3 - 39 yrs. | 258 |
| Pittsburgh | Pennsylvania | Residence Inn | — | 1,161 | 10,267 | 1,500 | | 12,928 | (948) | 1998 | Sep-05 | 3 - 39 yrs. | 156 |
| Myrtle Beach | South Carolina | Courtyard | — | 1,857 | 7,631 | 940 | | 10,428 | (1,116) | 1999 | Jun-04 | 3 - 39 yrs. | 135 |
| Nashville | Tennessee | Homewood Suites | — | 1,170 | 7,177 | 483 | | 8,830 | (729) | 1999 | May-05 | 3 - 39 yrs. | 121 |
| Arlington | Texas | SpringHill Suites | — | 1,122 | 6,649 | 39 | | 7,810 | (594) | 1998 | Jun-05 | 3 - 39 yrs. | 122 |
| Arlington | Texas | TownePlace Suites | — | 1,033 | 6,373 | 66 | | 7,472 | (554) | 1999 | Jun-05 | 3 - 39 yrs. | 95 |
| Dallas | Texas | SpringHill Suites | — | 1,372 | 18,737 | 333 | | 20,442 | (1,298) | 1997 | Dec-05 | 3 - 39 yrs. | 147 |
| Fort Worth | Texas | Homewood Suites | — | 1,152 | 8,210 | 504 | | 9,866 | (850) | 1999 | May-05 | 3 - 39 yrs. | 137 |
| Fort Worth | Texas | Residence Inn | — | 1,873 | 15,586 | 13 | | 17,472 | (1,348) | 2005 | May-05 | 3 - 39 yrs. | 149 |
| Fort Worth | Texas | SpringHill Suites | — | 2,125 | 11,619 | — | | 13,744 | (1,366) | 2004 | May-04 | 3 - 39 yrs. | 145 |
| Laredo | Texas | Homewood Suites | — | 1,118 | 9,781 | 11 | | 10,910 | (727) | 2005 | Nov-05 | 3 - 39 yrs. | 106 |
| Laredo | Texas | Residence Inn | — | 902 | 10,969 | 16 | | 11,887 | (860) | 2005 | Sep-05 | 3 - 39 yrs. | 109 |
| McAllen | Texas | TownePlace Suites | — | 1,205 | 6,256 | 32 | | 7,493 | (595) | 1998 | Jun-05 | 3 - 39 yrs. | 136 |
| Fredericksburg | Texas | Hilton Garden Inn | — | 1,178 | 8,143 | 444 | | 9,765 | (699) | 2000 | Jul-05 | 3 - 39 yrs. | 148 |
| Richmond | Virginia | Corporate Office | — | 1,822 | 15,362 | 66 | | 17,250 | (1,078) | 2005 | Dec-05 | 3 - 39 yrs. | 104 |
| Kent | Washington | TownePlace Suites | — | 381 | 1,038 | 3,284 | | 4,703 | (605) | 1993 | Jun-04 | 3 - 39 yrs. | N/A |
| Mukilteo | Washington | TownePlace Suites | — | 1,841 | 10,721 | 558 | | 13,120 | (745) | 1999 | Dec-05 | 3 - 39 yrs. | 152 |
| Redmond | Washington | Marriott | — | 1,505 | 11,055 | 528 | | 13,088 | (737) | 1999 | Dec-05 | 3 - 39 yrs. | 128 |
| Renton | Washington | Hilton Garden Inn | — | 9,504 | 56,168 | 328 | | 66,000 | (6,104) | 2004 | Jul-04 | 3 - 39 yrs. | 262 |
| Deposits on Construction in Progress | | | — | 1,277 | 14,674 | 1,682 | | 17,633 | (1,232) | 1998 | Nov-05 | 3 - 39 yrs. | 150 |
| | | | | | | 307 | | 307 | — | | | | |
| | | | | \$107,200 | \$745,911 | \$32,049 | | \$885,160 | \$(64,692) | | | | 7,750 |
| Real estate owned: | | | | | | | | | | | | | |
| | | 2007 | 2006 | 2005 | Accumulated depreciation: | | | | | 2007 | 2006 | 2005 | |
| Balance as of January 1 | | \$874,834 | \$803,417 | \$185,965 | Balance as of January 1 | | | | | \$37,928 | \$13,247 | \$1,881 | |
| Acquisition | | | 54,840 | 613,218 | Depreciation expense | | | | | 26,782 | 24,681 | 11,366 | |
| Improvements | | | 16,577 | 4,234 | Disposals | | | | | (18) | — | — | |
| Balance at December 31 | | \$885,160 | \$874,834 | \$803,417 | Balance at December 31 | | | | | \$64,692 | \$37,928 | \$13,247 | |

(1) The cost basis for Federal Income Tax purposes approximates the basis used in this schedule.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLE REIT SIX, INC.

By: /s/ GLADE M. KNIGHT
Glade M. Knight,
Chairman of the Board,
Chief Executive Officer, and President
(Principal Executive Officer)

Date: March 3, 2008

By: /s/ BRYAN PEERY
Bryan Peery,
Chief Financial Officer
(Principal Financial and Principal Accounting
Officer)

Date: March 3, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the date indicated.

By: /s/ GLADE M. KNIGHT
Glade M. Knight, Director

Date: March 3, 2008

By: /s/ LISA B. KERN
Lisa B. Kern, Director

Date: March 3, 2008

By: /s/ BRUCE H. MATSON
Bruce H. Matson, Director

Date: March 3, 2008

By: /s/ MICHAEL S. WATERS
Michael S. Waters, Director

Date: March 3, 2008

By: /s/ ROBERT M. WILY
Robert M. Wily, Director

Date: March 3, 2008

corporate governance

BOARD OF DIRECTORS



GLADE M. KNIGHT*
Chairman



BRUCE H. MATSON**
Partner
LeClair Ryan
Richmond, Virginia



MICHAEL S. WATERS*
President
Partnership Marketing
Midlothian, Virginia



LISA B. KERN†
First Vice President
Davenport & Company of
Virginia, Inc.
Richmond, Virginia



ROBERT M. WILY***
International Judicial
Consultant
Lindon, Utah

* Executive Committee
† Audit Committee
^ Compensation Committee

EXECUTIVE OFFICERS

Glade M. Knight
Chief Executive Officer &
President

David S. McKenney
President of Capital Markets

Justin G. Knight
Chief Operating Officer &
Senior Vice President of
Acquisitions

Kristian M. Gathright
Senior Vice President of
Operations

Bryan F. Peery
Chief Financial Officer,
Senior Vice President
& Treasurer

David P. Buckley
Senior Vice President,
General Counsel, &
Secretary

COURTYARD, VALDOSTA, GEORGIA

Corporate Information

CORPORATE HEADQUARTERS

814 East Main Street
Richmond, Virginia 23219
(804) 344-8121 (804) 344-8129 FAX
www.applereitsix.com

INDEPENDENT AUDITORS

Ernst & Young LLP
901 East Cary Street
Richmond, Virginia 23219
(804) 344-6000

CORPORATE COUNSEL

McGuireWoods LLP
One James Center, 901 East Cary Street
Richmond, Virginia 23219
(804) 775-1000

DIVIDEND REINVESTMENT PLAN

Apple REIT Six, Inc. provides shareholders the opportunity to purchase additional shares of stock through the reinvestment of distributions. Information regarding this option can be obtained from your investment advisor.

BENEFICIAL SHAREHOLDERS

21,519 at March 4, 2003

INVESTOR INFORMATION

For additional information about the company, please contact Kelly Clarke, Director of Corporate Communications 804-727-6321 or KClarke@applereit.com

DIVIDEND TAX REPORTING ALLOCATION

| | 2007 | 2006 |
|-------------------------|--------|--------|
| Return of Capital | 10% | 13% |
| Ordinary Income | 90% | 82% |
| Dividend paid per share | \$1.83 | \$1.88 |





COVER: RESIDENCE INN,
PORTLAND, OREGON

LEFT: SPRINGHILL SUITES,
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